Table of Contents

Acknowledgements

Comptroller of Public Accounts

Ginger Lowry

Project Manager/Senior Research Analyst

CAPCO

Corrine Hall

General Land Office

Katy Sellars

Office of the Governor, Economic Development and Tourism Division

Amir Mirabi

Texas Department of Agriculture

Alexandra Gamble

Erica Garza

Mark Wyatt

Texas Department of Banking

Wendy Rodriguez

Texas Department of Housing and Community Affairs

Michael Lyttle

Ashley Schweickart

Naomi Trejo

Elizabeth Yevich

Texas Department of Insurance

Kevin Brady

Richard Dunlap

Community Reinvestment in Texas (2010-2011)

Executive Summary

The 1997 Texas Legislature's House Bill 1414 created the Community Reinvestment Work Group to work with the financial community to develop statewide community reinvestment strategies. Title V, Chapter 395 of the Texas Finance Code defines the composition of the Community Reinvestment Work Group, its operations and duties. Community reinvestment strategies include financial literacy education, investment pools and other vehicles used to leverage private capital from banks, insurance companies and other entities for community projects.

The Community Reinvestment Work Group includes representatives from the Texas Comptroller of Public Accounts (Comptroller), the Department of Banking (DOB), Department of Economic Development and Tourism (EDT), Texas Department of Insurance (TDI) and the Texas Department of Housing and Community Affairs (TDHCA). The Texas Finance Code requires this group to consult with representatives of the federal Office of the Comptroller of the Currency, the Federal Reserve Board of Governors (FRB), the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC) to identify regulatory changes and initiatives since the 2009 update that affect Texas banks and financial institutions.

Community Reinvestment Work Group meeting in progress.

The Comptroller's representative coordinates the work group's meetings, analyzes policy, recommends and reviews research, and monitors and evaluates the state's community reinvestment strategies to encourage financial institutions to lend money to low- and moderate-income families and individuals. The work group also assesses efforts to attract private capital through investments that meet the requirements of the Community Reinvestment Act of 1977 (12 U.S.C. Section 2901 et seq.).

Each biennium, the Community Reinvestment Work Group summarizes the effectiveness of its strategies. The following state agencies contributed to the 2011 update:

- Texas Department of Agriculture (State Office of Rural Affairs)
- Texas Department of Banking
- Texas Comptroller of Public Accounts
- Texas Department of Housing and Community Affairs
- Texas General Land Office (Disaster Recovery)
- Governor's Economic Development and Tourism Division
- Texas Department of Insurance
- Texas Association of Community Development Corporations
- Texas Department of Rural Affairs

The work group met in Fall 2010 to discuss the effectiveness of its current strategies and initiatives and to develop new strategies for 2011 and 2012. The Comptroller's representative collected agency updates from work group members and summarized community reinvestment research from banks, research organizations, advocacy groups, and federal regulatory agencies, including the FDIC, the Federal Financial Institutions Examination Council (FFIEC), the Office of Thirft Supervision (OTS) and the Federal Reserve Bank of Dallas.

This update provides an overview of the Community Reinvestment Act (CRA); describes changes to CRA regulations that became effective since 2010; highlights national and state financial services regulatory changes resulting from the recession; examines recent data and studies on foreclosures and the subprime lending crisis; and describes small business, small farm and community development lending in Texas. Also discussed are state agencies' community reinvestment strategies and examples of Texas community reinvestment initiatives, including financial literacy surveys and related workshops held across the state.

2011 Legislation

82nd Legislature: House and Senate Bills

Recent consumer protection legislation enacted by the 82nd Legislature are intended to assist Texas homebuyers and support community investment.

HB 3 revised the Texas Windstorm Association (TWIA) and made a number of functional changes affecting TDI. The bill established a new Ombudsman Program within TDI to provide information and educational programs to assist TWIA policyholders with claims via a new toll-free number, consumer publications in print and on the TDI website and presentations at outreach events. The bill also amended portions of the Insurance Code relating to TWIA operations, the resolution of certain disputes concerning claims and the issuance of private windstorm and hail insurance policies by certain insurers.

HB 34 expanded instructional requirements for personal financial literacy.

The bill imposes certain limitations on certain claims and actions brought against TWIA; requires TWIA to make random audits of claims practices following certain storms; and describes the process and requirements for the filing of claims against TWIA, the processing of those claims and the resolution of disputes concerning them.

The bill also created new procedures and processes for TWIA policyholders to obtain a review of a loss claim, request appraisal and seek redress in court. It also created an expert panel, appointed by the commissioner of insurance, to advise TWIA concerning the extent to which damage to property insured under an association policy occurred as a result of wind, waves, tidal surges, rising waters and wind-driven rain associated with a storm. The bill requires the Texas Department of Insurance to consider the panel's recommendations and publish guidelines for TWIA to use in settling claims.

HB 34 expanded instructional requirements for personal financial literacy. Each school district and open-enrollment charter school is required to include instruction in methods of paying for college and other post-secondary training in financial literacy courses and/or economics courses. This must include instruction on completing federal student aid forms. A district may use an existing program that provides this instruction without charge to students. Districts and open-enrollment charters must ensure that this instruction is provided to all students enrolled in a dual-credit course at a college or university that meets the requirements for an economics course credit. The State Board of Education was required to address this in the Texas Essential Knowledge and Skills (TEKS) not later than August 31, 2012. These TEKS must be taught in Texas schools beginning with the 2013-14 school year.

HB 399 amended the Texas Education Code to require general academic teaching institutions to offer training in personal financial literacy as soon as the board considers practical, but not later than fall 2013. The bill requires the board to determine the topics to be covered by the training and authorizes it to provide for online training.

HB 2592 provides disclosure and notice requirements for a "credit access business" (CAB). The legislation requires CABs to post certain disclaimers in their physical locations and on their websites that include a fees schedule for service charges, notices about the intended use of payday and auto title loans and refinance charges and contact information for the Office of Consumer Credit Commissioner (OCCC). Before performing its services, a CAB now must provide consumers with a disclosure adopted by the Texas Finance Commission that compares the interest, fees and annual percentage rates charged on payday or auto title loans to those charged on alternative forms of consumer debt. It also must list the accumulated fees consumers would incur by renewing or refinancing outstanding payday or auto title loans for various time periods, as well as information on typical repayment patterns of payday and auto title loans. The OCCC may assess an administrative penalty against a CAB that violates these requirements.

HB 2594 relates to the registration and regulation of credit services organizations. The bill added subchapter G to chapter 393 of the Texas Finance Code to require OCCC to license credit services organizations.

State Capitol, Austin, Texas

HB 2615 amended the Finance Code to require the Office of Consumer Credit Commissioner to compile a one-page document on financial literacy and post it on the OCCC website. The bill also requires health and human services agencies to ensure that this document is offered to persons who receive services from the agency at locations where they frequently access these services.

HB 3232 amended the Texas Education Code to require the TEKS to incorporate personal financial literacy in mathematics instruction in kindergarten through eighth grade. The commissioner of education must adopt a list of instructional materials for use as part of the foundation curriculum for personal financial literacy in kindergarten through eighth grade. The bill also requires the State Board of Education to review and adopt mathematics textbooks that satisfy the requirements for instruction in personal financial literacy on the next scheduled review and adoption cycle following the bill's effective date.

Senate Bills

Several Senate bills were intended to assist Texas homebuyers and support community investment.

SB 1 covers a broad range of state government programs and functions. The bill authorizes the governor to designate which state agency should receive and manage disaster recovery funds. Parts of the bill then transfer all contracts, property and funds to the designated agency. The General Land Office (GLO) was designated to distribute disaster recovery funds from Hurricanes Dolly and Ike and must implement this program.

SB 290 amended the Texas Education Code to require the Texas Essential Knowledge and Skills to require instruction in personal financial literacy in mathematics instruction in kindergarten through eighth grade. The commissioner of education must adopt a list of instructional materials for use as part of the foundation curriculum for personal financial literacy in kindergarten through eighth grade. The State Board of Education must review and adopt mathematics textbooks that satisfy the requirements for this instruction on the next scheduled review and adoption cycle following the bill's effective date.

SB 1048 amended the Government Code to create authority and processes for the execution of public-private agreements to develop qualifying public works projects, including mass transit facilities, hospitals, schools, recreational facilities and public buildings. Provisions do not apply to state highway system projects, projects undertaken by a transportation authority or telecommunications infrastructure other than technology installed as part of a qualifying project. The bill affects state agencies, institutions of higher education electing to participate and local governments including school districts. The bill set provisions for the identification and review of qualifying projects and requirements for contractual agreements between private parties and governmental entities involved in a qualifying project. It also creates a Partnership Advisory Commission of legislators and others to provide oversight for qualifying projects.

SB 1233 amended Chapter 52 of the Property Code to require the collection of certain data regarding foreclosures of residential property in Texas. The proposed new TAC Chapter 1 §1.24, Foreclosure Data Collection, promulgates data collection procedures. The proposed rule references four forms, two of which must be filed with the county clerk by the sheriff or a trustee when filing a notice of sale or completed sale as a result of a residential foreclosure, and two of which must be filed with TDHCA by county clerks when reporting information on notices of sale or completed sales as a result of foreclosure within the last 30 days. This proposed rule would apply only to notices of sale and completed sales filed on or after January 1, 2012.

Community Reinvestment Work Group Research

Small firms with 20 to 499 employees led growth in private sector employment between 2010 and the second quarter of 2011.

According to the Community Reinvestment Work Group:

Employment

- the U.S. gained jobs in the private sector each month of 2010.
- private-sector employment in Texas dropped by 4.4 percent between December 2007 and December 2009, but grew by 2.7 percent in 2010.
- Texas' unemployment rate reached 8.3 percent in December 2010, compared to 9.4 percent nationally.
- Texas lost more than 350,000 jobs in 2009, but gained more than 213,000 jobs in the first 11 months of 2010.[1]
- between April 2001 and April 2011, Texas added 732,800 jobs, more than all other states.[2]

Small Businesses

- Small businesses, according to the Office of Small Business Advocacy, employ half of all private-sector employees, represent 99.7 percent of all employer firms and pay 43 percent of total U.S. private payroll. Small firms with 20 to 499 employees led growth in private sector employment between 2010 and the second quarter of 2011[3] and accounted for 64 percent of net new jobs created between 1993 and 2011.[4]
- Based on the latest Office of Small Business Advocacy research reported in September 2012, the U.S. had 27.9 million small businesses in 2010 and Texas had 2.2 million in 2009.[5]
- Small businesses hire 43 percent of information technology workers, including computer programmers, engineers and scientists.[6]
- Small businesses create more than half of nonfarm GDP annually.[7]
- About 52 percent of small businesses are home-based and 2 percent are franchises.[8]

Small Business Lending, Home Foreclosures and Subprime Mortgage Activity

- RealtyTrac noted that the U.S. saw fewer than 214,900 foreclosure filings in September 2011, 6 percent fewer than in August 2011 and 38 percent fewer than in September 2010.
- Texas registered the shortest average foreclosure process of any state (90 days) in RealtyTrac's 2011 Year-End Foreclosure Market Report.[9]
- In 2011, Texas received notice of federal grants totaling more than $135 million for homeowners at risk of losing their homes to foreclosure. One of every 1,074 housing units in the state received filing notices of foreclosure in May 2011.[10]
- The U.S. Small Business Administration (SBA) supported approximately 54,000 loans worth more than $22 billion to small businesses in fiscal 2010 in the U.S. through its two largest loan programs, up from fewer than 47,900 loans or $17 billion in fiscal 2009.[11]
- U.S. commercial banks have started to loosen tight lending conditions for small businesses that persisted since 2007, resulting in almost $700 billion in loans in fiscal 2009 and an increase in venture capital investment dollars by mid-2010.
- On Sept. 27, 2010, Congress passed the Small Business Jobs Act of 2010 to help small businesses continue to create jobs and encourage economic recovery through more than $12 billion in lending support. The act increased 504 loan sizes and microloan limits, expanded financial options for small businesses selling cars and strengthens parity across federal contracting programs by allowing contracting program officers to choose among businesses participating in HUB Zone and 8(a) programs as well as those owned by women and service-disabled veterans.[12]
- Between 2008 and 2011, the federal government targeted investments to small U.S. businesses through a combination of tax relief, including 17 tax cuts; expanded access to capital, such as $53 billion in SBA loans for 113,000 small businesses; and tax credits and deductions for Americans starting new businesses or hiring the unemployed. Similar investments included delivery of at least 30 percent of Recovery Act contracts to small businesses; funding of nearly $7 billion in broadband infrastructure expansion grants in rural areas; and creation of the State Small Business Credit initiative (SSBCI). Funded with $1.5 billion, the SBBCI will help participating states use federal funds to strengthen state programs that support loans to small businesses and small manufacturers to help create jobs.
- As of July 2011, fewer than 870 banks had applied for a total of $11.6 billion in small business lending funds, with only six community banks receiving a combined total of $123 million in the first round of capital funds.

On Sept. 27, 2010, Congress passed the Small Business Jobs Act of 2010 to help small businesses continue to create jobs and encourage economic recovery through more than $12 billion in lending support.

Dodd-Frank Wall Street Reform and Consumer Protection Act

- Congress strengthened access to conventional credit through the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010).[13]
- This act established the Consumer Finance Protection Bureau (CFPB) to promote financial education; help make markets for consumer financial products and services work more efficiently for Americans; enforce federal monitoring and enforcement of consumer markets and financial laws; and broaden choices among credit cards offered to consumers.[14]

Financial Literacy

- The U.S. Treasury Department's 2011 National Financial Capability Challenge for high school students, which teaches financial skills such as saving, budgeting and investing, found that only 762 Texas students out of 4,362 who took a voluntary online exam scored in the top 20 percent nationally. Only 21 Texas students (0.5 percent) achieved a perfect score.[15]

State Agency Community Reinvestment Programs and Strategies

- As of October 2010, the Texas Department of Banking reported a total of 315 state-chartered banks operating in Texas, managing $162.4 billion in combined total assets; 20 out-of-state, state-chartered banks managed another $34.8 billion.[16]
- TDHCA administers nearly $640 million annually in affordable housing, community assistance and disaster recovery programs. Almost 99 percent of the households served by TDHCA housing programs in fiscal 2009 and 2010 had incomes at or below 50 percent of their area medians.[17]
- The Texas Comptroller's office partners with approved depository lenders and the Governor's Economic Development and Tourism Office on a Linked Deposit Program for loans to minority- and women-owned businesses, child care centers, nonprofit organizations and small businesses located in state-designated enterprise zones.
- The 2011 Texas Legislature abolished the Texas Department of Rural Affairs (TDRA) and transferred most of its responsibilities to the Texas State Office of Rural Health at the Texas Department of Agriculture, effective Oct. 1, 2011. This includes the Texas Community Development Block Grant Program (TxCDBG), the nation's largest CDBG program. The U.S. Department of Housing and Urban Development (HUD) awarded the program $66,604,562 for program year 2011.[18]

The 2011 Texas Legislature abolished the Texas Department of Rural Affairs (TDRA) and transferred most of its responsibilities to the Texas State Office of Rural Health at the Texas Department of Agriculture, effective Oct. 1, 2011.

- As of July 2011, the General Land Office assumed responsibility for all disaster recovery funding administration in Texas and is now the lead state agency for managing disaster recovery grant funds through HUD.
- GLO coordinated the cleanup of the Texas coast after hurricanes Dolly and Ike. The state received two separate allocations of community development block grants (CDBGs) from HUD totaling $3.1 billion. The distribution will occur in three main phases; the first allocation is for $1,314,990,193, with housing funds to be administered locally by 18 different subrecipients across the affected region, while non-housing funds will go to more than 200 grantees for infrastructure projects and economic development activities.
- The state also has been allocated $31,319,686 in HUD CDBG funds as disaster recovery assistance for wildfires that occurred between the April 6 and December 31, 2011. GLO is the official administrator of these funds and will accept housing assistance applications and distribute the funds under joint HUD guidelines and a HUD-approved Action Plan that states how the agency will distribute the remaining 20 percent of funds to other affected communities. It also will stipulate the breakdown between housing and non-housing assistance for all funding.
- TDI prepares a biennial report on investments made in Texas by life and health insurance companies with $10 million or more in Texas premiums. In calendar 2009, a total of 246 companies met these criteria and accounted for about 98 percent of all life and annuity premiums collected in Texas.
- TDI's biennial report for 2010 identified $57 billion in Texas investments made by these insurers. Ninety-three percent of their reported investments were in commercial and farm mortgages, political subdivision/public utility bonds and corporate bonds. The largest amounts by category were commercial and farm mortgages ($23.7 billion), political subdivision/public utility bonds ($13.6 billion) and corporate bonds ($12.9 billion).

  Since many companies cannot link their investments to an individual state, these amounts are not comprehensive. This is particularly true of pooled investments.

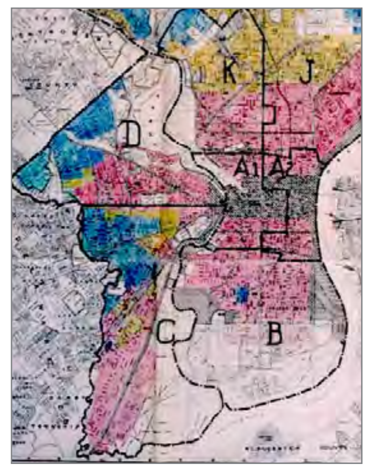
Residential mortgages frequently are purchased through pooled investments, so comprehensive data are not available for this category. In addition, due to the difficulty involved in linking some corporate bond investments to specific states, reporting for that category is optional. Texas investments made by property and casualty insurance companies also are excluded from the totals above because they are not subject to the statute requiring these reports. More details about these investments can be found in the *December 2010 Community Investment Report*, available from the Texas Department of Insurance at http://www.tdi.state.tx.us/reports/life/documents/pccominv10.pdf.

Texas law does not require insurers to identify investments by geographic location except for certain targeted economically disadvantaged areas. Insurers can report investments at the zip code level. Generally, however, disadvantaged areas are identified on a broader geographic level such as city, county, state or national area. Life and health insurers voluntarily reported investments of about $1.1 billion to economically disadvantaged areas.

Members of the Community Reinvestment Work Group.

The Community Reinvestment Act

The CRA was one of the first federal acts to address "redlining" by banks and savings and loan institutions — the figurative practice of drawing a red line on a map to mark areas in which banks will not invest. The term redlining also is used to describe discrimination against persons due to gender or race. Congress created the CRA (12 U.S.C. 2901), also known as Title VIII of the Housing and Community Development Act, to encourage commercial banks and savings and loans to help meet the credit needs of all segments of the communities they serve. CRA applies to all federally insured depository institutions, national banks, thrifts and state-chartered commercial and savings banks.



CRA Redlining Map

CRA Goals and Community Development

The CRA has helped affordable housing and community development advocates monitor the lending performance of financial institutions and improve homeownership opportunities for underserved populations. One of its primary goals is to improve access to credit for businesses and individuals in low- and moderate-income communities.

Financial institutions comply with the CRA's requirements by making loans to support:

- affordable housing construction and rehabilitation;
- the community development activities of local, state and tribal governments, including financing for geographic areas recovering from natural disasters and distressed or underserved rural counties;
- community development corporations, community financial institutions and minority- and woman-owned financial institutions;
- community services for low- and moderate-income individuals, including credit and homebuyer counseling, school savings programs, technical assistance for economic revitalization programs and other activities;
- construction of community facilities in low- and moderate-income areas;
- environmental cleanup activities and the redevelopment of industrial sites in low- and moderate-income communities; and
- multifamily rental property financing designed for low- and moderate-income persons.

History of CRA Rules

CRA regulatory amendments have broadened the public's access to CRA examination schedules, dollar amounts of community development lending activity, geographic distribution of bank investments, borrower profiles and the number of bank branches in low- and moderate-income areas. These changes also have expanded the options for investment that count as credit toward a financial institution's CRA compliance rating.

Bank Industry Consolidation, Mortgage Market Growth and Challenges Facing Community Banks

The nation's network of community banks has shrunk during the past 33 years, due to factors including financial services industry consolidation, competition with financially innovative large banks, reduced cost advantages for smaller banks in the realm of capital acquisition and higher regulatory compliance costs. This section summarizes key community banking facts and recent changes and challenges facing community banks and other financial institutions.

A "community bank" transacts business in a limited geographical area and has locally based decision-makers. As important suppliers of credit to small businesses, community banks spur local economic growth by stimulating jobs and providing car and home loans to small business employees.

Community banks generally offer a wide range of services, including:

- "anytime, anywhere" electronic transactions and mobile banking;
- automated teller machines;
- credit and debit cards with competitive features and rates;
- competitive consumer-loan products and mortgages;
- agricultural and small-business lending; and
- competitive checking, investment products and savings rates.

Community banks lend mostly to small businesses, which provide half of all U.S. jobs.

Community banks lend mostly to small businesses, which provide half of all U.S. jobs. Community banks and credit unions make the small loans for cars and houses needed by small-business employees, increasing local employment and economic stability.[19]

Compared to their large-bank competitors, community banks operate with the advantage of superior knowledge of local economic conditions when lending to small businesses. This is known as "relationship-based" lending.

According to the Independent Community Bankers of America, community bank assets represent just 21 percent of total U.S. banking industry assets, yet community banks with less than $10 billion in assets made 58 percent of all bank loans to small businesses in 2010.[20] Compared to large banks, community banks generally have $1 billion or less in assets and offer a higher level of personalized customer service.

The federal Office of Thrift Supervision (OTS) expanded the category of "small savings associations" in August 2004 to include those with less than $1 billion in assets, regardless of holding company affiliation.[21]

Between 1979 and 2010, bank consolidation reduced the number of U.S. bank and thrift charters by 58 percent, for a total loss of 11,000 financial institutions. During the mid- and late 1990s, the number of lenders seeking to increase cash flow rose. Lenders began selling primary mortgages to obtain funds to originate new loans. As the secondary mortgage market grew, financial institutions issued more home mortgage loans. Banks began using credit-scoring software to determine prospective borrowers' ability to repay debts and loans. At the same time, consumers began seeking loans and paying bills through the Internet.

Even today, though, community banks comprise 98 percent of all U.S. banks. More than 7,000 community banks, including commercial banks, thrifts, stock and mutual savings institutions in about 50,000 locations across the U.S., possess individual assets ranging from $10 million to more than $10 billion.[22]

About 4,000 community banks failed between 2000 and 2010, outgrowing their community bank status or disappearing through mergers. Since the beginning of the financial crisis in 2007, more than 275 U.S. banks have failed; of these, 220 or 80 percent were community banks.[23] Of 157 bank failures in 2010, most represented smaller institutions with less than $1 billion in assets. Larger banks recovered more quickly from the financial crisis.[24] According to Texas Banking Commissioner Charles Cooper, "community banks continue to be one of the largest providers of credit to small businesses," fostering business growth, creating new jobs and developing local economies.[25]

Critics of the Dodd-Frank financial reforms suggest that a single set of financial rules cannot be applied efficiently to community banks, credit unions and large banks and their respective banking and lending activities. They argue that community banks and credit unions do not have comparable fiscal assets and the evaluation resources needed to meet the new rules' requirements for loan portfolio examinations and related compliance paperwork. Also, these smaller institutions already have paid future premiums to help ensure the solvency of the FDIC's insurance fund. The Dodd-Frank Act thus appears to place additional financial and regulatory burdens on smaller institutions.

Evaluations of Financial Institutions

Four separate federal agencies — the FDIC, FRB, Office of the Comptroller of the Currency (OCC) and the OTS — evaluate the CRA record of institutions they regulate before approving applications for charters, mergers, acquisitions and branch openings. Federally insured depository institutions, national banks, savings associations and state-chartered commercial and savings banks all must comply with CRA regulations. (See Appendix A for details on the evaluation process and changes to the definition of small banks.)

The FDIC conducts CRA examinations of state-chartered institutions that are not members of the Federal Reserve System. The governors of the Federal Reserve System regulate state-chartered banks that are members, as well as bank holding companies and branches of foreign banks.

The FDIC conducts CRA examinations of state-chartered institutions that are not members of the Federal Reserve System.

The FDIC, OCC and OTS examine depository institutions not supervised by the FRB. FRB considers the CRA record of its member banks before approving applications to open new deposit-taking facilities. CRA regulation 12 CFR 25 requires the OCC to conduct CRA exams of national banks every three years. It also requires OCC to assess a national bank's record of meeting credit need s in the entire community, including low- and moderate-income neighborhoods, before approving any applications for mergers.

Under CRA regulation 12 CFR Part 563e, OTS must assess a savings association's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods. OTS also must consider that record in evaluating a savings association's application for new branches, the relocation of an existing branch, mergers and consolidations and other corporate activities.[26]

Changes to CRA Rules (2010-2011)

Periodically, the OCC, the Board of Governors of the Federal Reserve System and FDIC issue joint final rules and technical amendments. They amended CRA regulations to adjust asset-size thresholds used to define "small bank," "small savings association," "intermediate small bank" and "intermediate small savings association" as of Jan. 1, 2012. These asset threshold adjustments were based on the annual percentage change in the Consumer Price Index (CPI).[27] The adjustments are determined by the annual November-to-November change in the average CPI for urban wage earners and clerical workers, without seasonal adjustment. The thresholds are used to define small and "intermediate small" financial institutions for CRA purposes. The table below reflects a five-year history of previous adjustments due to changes in the CPI.[28]

Regulatory Changes to Asset Thresholds (2008-2011)

Effective Date	Threshold for Small Institutions	Threshold for Intermediate Small Institutions
Jan. 1, 2011	$1.122 billion	$280 million
Jan. 1, 2010	$1.098 billion	$274 million
Jan. 1, 2009	$1.109 billion	$277 million
Jan. 1, 2008	$1.061 billion	$265 million

Source: Federal Financial Institutions Examination Council.

On July 21, 2011, the Office of Thrift Supervision, which regulates savings associations, adopted the annual adjustment formula applied by other federal banking agencies. Under the Dodd-Frank Act discussed later in this chapter, the responsibility for supervising savings and loan holding companies and non-depository subsidiaries was transferred from the OTS to the Federal Reserve System.[29]

CRA rules require a bank to receive a "satisfactory" on the community development and lending tests before it can obtain approval for new branches or affiliates.

CRA rules require a bank to receive a "satisfactory" on the community development and lending tests before it can obtain approval for new branches or affiliates. The community development test analyzes four areas of bank activity:

- affordable housing;
- community services;
- economic development and revitalization; and
- stabilization activities.

The affordable housing and community services evaluations apply to a bank's lending to low- or moderate-income individuals. The economic development evaluation applies to a bank's lending to small businesses and farms, while the revitalization or stabilization test evaluates bank services provided to low-or moderate-income census tracts and underserved rural areas. OCC's community development definition includes activities that stabilize designated disaster areas and "underserved and distressed" rural areas. It also includes educational, health or social services and community or tribal-based child care targeted to low- and moderate-income individuals.[30]

Under the CRA, regulatory examiners evaluate large banks once every two years to grade their lending, investments and services in low- and moderate-income neighborhoods. Large bank examinations are based on lending, investment and service performance and must disclose data on mortgage lending in non-metropolitan areas, community development activities and loans to small businesses. An unsatisfactory or weak CRA record can result in the denial of a financial institution's request to expand.

Examiners may customize federal regulatory tests to examine limited-purpose and wholesale banks that specialize in large commercial deposits and provide credit cards but do not make home loans or accept small deposits. Customized tests focus on the number of community development loans and investments, including low-income housing tax credits or investments in small businesses that a bank has made in its service area.

The four federal regulatory agencies publish lists each quarter of CRA examination schedules for regulated banks and savings institutions. Regulators maintain the lists on their agency websites and provide them to the public.

The U.S. Financial Services Industry and the CRA

Since the 1997 passage of the CRA, the financial industry has changed in a number of ways, including the consolidation of large and small banks, banking deregulation, shifting market forces, technological advances in banking and mortgage lending practices and the Dodd-Frank financial reforms of 2010.

The U.S. financial services industry has both benefited and suffered from the impact of a complex mix of competition among banks and other financial institutions, the growth in check-cashing and credit-card services and the marketing of insurance products and sales of securities across state lines. Without traditional banking oversight, mortgage banking companies grew in number and became more involved in financial and insurance services, making loans without traditional banking regulatory oversight.

Under the GLB act, state insurance departments regulate the insurance activities of banks and all financial firms involved in the business of insurance.

CRA and the Gramm-Leach-Bliley (GLB) Act

In 1999, the Gramm-Leach-Bliley (GLB) Act repealed restrictions found in sections 20 and 32 of the Glass-Steagall Act of 1933 concerning the affiliation of banks and securities firms. Known as the Financial Services Modernization Act of 1999, the GLB Act created new forms of financial institutions called "financial holding companies" as part of section 4 of the Bank Holding Company Act.[31]

The GLB act requires that financial holding companies, insured depository institutions affiliated with financial holding companies and stand-alone insured depository institutions receive approval for expanded activities or acquisitions only if their latest CRA examination rating is satisfactory or better.

The act created a system for federal and state financial regulatory compliance, requiring the Federal Reserve Board to supervise financial holding companies. For example, the Texas Department of Banking regulates the state's banks following compliance guidelines issued by the FRB. The act ended legal barriers among the banking, insurance and securities industries, allowing them to combine services and provide various financial products. Under the GLB act, state insurance departments regulate the insurance activities of banks and all financial firms involved in the business of insurance.

The GLB act also reduced the frequency of regulatory examinations for small banks with passing CRA ratings. Small banks with outstanding ratings are evaluated once every five years, and once every four years if they pass with a satisfactory rating. Regulatory agencies may examine small banks more frequently if they believe they have a compelling reason to do so.

Regulatory examiners use the Federal Financial Institutions Examination Council's (FFIEC's) revised interagency examination procedures to assess institutions' compliance with the CRA "sunshine requirements" of the GLB act. These requirements apply to the funds of an insured depository institution or any affiliate with an aggregate value of more than $10,000 in a calendar year. The provisions cover written agreements made in compliance with the CRA that involve funds or other resources of an insured depository institution, including any affiliated institutions, with an aggregate annual value of more than $10,000. Regulatory examiners also apply the CRA sunshine requirements to financial institutions having loans with aggregate principal value of more than $50,000 in a calendar year.

Sunshine requirements do not cover any agreement with a nongovernmental entity or person that has not had a CRA contact with an insured depository institution or affiliate or a banking agency. This includes agreements entered into by entities or persons that solicit charitable contributions or other funds without regard to the CRA. Parties to covered agreements must disclose the agreement to the public and the appropriate agency. All parties must file a report with the appropriate regulatory agency each year.[32] Once management determines that a financial institution is a party to one or more covered agreements, the regulation requires examiners to investigate and describe its covered agreement disclosure practices.

Home Mortgage Disclosure Act Data Disclosure

The federal Home Mortgage Disclosure Act (HMDA) of 1975 requires most mortgage lenders in metropolitan areas to collect data on their housing-related lending activity and report them to the Federal Reserve Board, to the attention of the regulatory agency to which they report annually. HMDA reporting makes the data available to the public.

HMDA data requirements apply to home improvement loans, purchases and refinanced home mortgage loans.

HMDA data requirements apply to home improvement loans, purchases and refinanced home mortgage loans. Under the CRA, agencies that evaluate insured depository institutions must use HMDA data when evaluating regulated institutions' records of meeting community mortgage credit needs.

Initially, HMDA was used to help determine whether financial institutions were serving the housing needs of their communities and to enforce fair lending practices. Combined with the Federal Reserve Board's Regulation C, HMDA requires the majority of depository institutions and certain for-profit, non-depository institutions to collect, report and disclose data concerning home purchase and improvement loans, refinancing and related loan applications.

Congress changed HMDA in 1989 to require lenders to collect data about denied home loan applications and related applicant or borrower information.

In 2002, the Federal Reserve Board amended HMDA Regulation C to require new data fields and price information for certain loans. HMDA requires lenders to indicate whether a loan or application involves a one- to four-family home, a multi-family residence or a manufactured home. The institutions must report the type, purpose and amount of the loan; the property's location; and the applicant's ethnicity, income, race and sex. HMDA data requirements include most home-secured loans except for home equity loans for credit card debt consolidation and medical expense payments. The regulations make reporting of home equity lines of credit (HELOCs) financing optional.

- From 1989 through the 1990s, national community development groups successfully pursued reforms of the HMDA that were intended to increase the amount of disclosed information required on loans. Recent reforms included the Financial Institutions Reform, Recovery and Enforcement Act of 1989, which added new data disclosure requirements. The FRB revised Regulation C in 2002, requiring lenders to disclose data on loans covered by the Home Ownership and

Equity Protection Act including data on home loans, lien status, loan pricing and whether an application or loan involves a manufactured home.

- Between 2007 and 2012, the FRB increased the asset-size exemption for banks, consumer finance companies, credit unions, mortgage companies with offices in metropolitan areas and savings and loan associations.
- As of Oct. 1, 2009, the FRB amended HMDA Regulation C by revising rules for reporting price information on high-priced loans. The revised rule requires lenders to report the spread between a loan's APR and a survey-based estimate on APRs currently offered on comparable prime mortgage loans when the spread equals or is greater than 1.5 percentage points for a first loan, or 3.5 percentage points for a subordinate-lien loan. Labeling the loan as adjustable or fixed also has been added as a required element in the rate spread calculation. As of the same date, reporting of price information compliance became mandatory for loan applications and for loans that lose on or after Jan. 1, 2010, regardless of application dates.
- In July and August 2010, the Office of Thrift Supervision, FRB, FDIC and OCC held public hearings aimed at modernizing the CRA regulations. On December 20, 2010, rule changes were published in the *Federal Register*, Vol. 75, No. 243 that modified CRA rules to encourage financial institutions to help stabilize communities ravaged by foreclosures.
- As of January 19, 2011, the rules expanded the CRA's definition of community development to include activities supporting the objectives of the $7 billion Neighborhood Stabilization Program (NSP) under the U.S. Department of Housing and Urban Development. The 2011 rule changes provide for financial institutions to receive favorable CRA consideration for "loans, investments, and services, among other financial products, that support, enable or facilitate projects or activities consistent with the NSP's five eligible-uses criteria. Supporting loans, investments and services must provide benefits for low-, moderate- and middle-income people or geographies located in NSP target HUD-designated areas of greatest need. Examples of eligible investments, loans and services include the donation of foreclosed, bank-owned properties; technical assistance and financing for purchase and rehabilitation of foreclosed properties and redevelopment of demolished properties."

The Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in 2010 to promote the financial stability of the United States by improving accountability and transparency in the financial system.

Two key provisions broaden the CRA's community development definition, moving it away from the previous emphasis on activities that benefit low- and moderate-income communities. CRA consideration now will include loans, investments and services that benefit middle-income people and geographies. The second key provision is that the rule extends CRA consideration to loans, investment and services made outside of a financial institution's assessment area, when the institution has sufficiently met community development needs inside its area. Regulators previously expanded the definition of community development in 2006 to promote investments in the Gulf Coast areas affected by hurricanes Katrina and Rita.[33]

The Dodd-Frank Wall Street Reform and Consumer Protection Act, the CRA and Equal Credit Opportunity Acts

The Dodd-Frank Wall Street Reform and Consumer Protection Act, which became law on July 21, 2010, includes 2,300 pages aimed at the overhaul of high-risk, complex financial practices in the housing market, transparency enhancements and corrections to financial services industry sector weaknesses. Key provisions would affect state banking, bank holding companies, mortgage lenders, credit rating agencies and financial regulatory institutions. Requirements for qualified community reinvestment projects are one example of the impact the Dodd-Frank Act brings to bank compliance with the CRA. The law reaffirms the dual-banking system, acknowledges the role of state regulators, encourages state federal cooperation and reinforces the system of checks and balances between state and federal regulators to limit centralization of regulatory authority in Washington, D.C.[34]

Section 1071 of the Dodd-Frank Act amended the Equal Credit Opportunity Act. This action created a set of requirements, similar to HMDA, for small business credit applications. The section mandates that all financial institutions must ask businesses applying for small business credit, whether or not they are women- or minority-owned, to maintain a record of the information separate from the application, and to report application content to the Bureau of Consumer Financial Protection, including business location, action taken, amount of credit provided and related details. The bureau must make the information available to the public upon request.[35]

Requirements for qualified community reinvestment projects are one example of the impact the Dodd-Frank Act brings to bank compliance with the CRA.

Summarized Dodd Frank Act Protections & Restrictions

A single federal agency is responsible for ensuring consumer protection in financial services transactions with banks, mortgage companies, payday lenders and credit card companies, making each accountable.
Financial services firms will be prohibited from growing large enough to put the entire financial system at risk of collapse.
The act places restrictions on extra fees that businesses charge for debit-card "swipe fees" that exceed transaction processing costs.
The act increases protections for consumers against unfair credit card practices, including credit-card interest rate increases.
Free annual credit scores are to be made available so consumers can monitor their finances, scores and reported payment histories.
The act prohibits taxpayer-funded bailouts authorized by the federal government. Companies must liquidate when they become insolvent.
The act increases shareholder input on CEO compensation and requires that company compensation boards be fully independent of CEO influence. It also stipulates that investment brokers must act in the best interests of their customers, not their financial self-interest.

Metropolitan Statistical Area Boundaries and HMDA

Both the CRA and HMDA use the U.S. Office of Management and Budget's (OMB's) statistical area definitions. In 2003 and 2004, these definitions changed, affecting HMDA loan data collection and reporting by financial institutions located within OMB's revised statistical areas.

OMB's revised definitions created 49 new metropolitan statistical areas, changed the boundaries of many other MSAs and established new types of statistical areas including metropolitan divisions (MetroDivs or MDs). New OMB statistical areas also include combined statistical areas and micropolitan statistical areas. OMB eliminated the terms "Consolidated MSA" (CMSA) and "Primary MSA" (PMSA). Only MDs and MSAs are recognized for CRA and HMDA reporting purposes. Micropolitan areas and "nonclassified" areas are considered "nonmetropolitan" for all purposes under HMDA and CRA.

- As of Jan. 1, 2004, FFIEC required affected financial institutions to collect HMDA and CRA data using the OMB's new definitions. Collected data must include the property location using an MSA or MD code if the property is located in an MD. (For detail of OMB changes affecting HMDA, see Appendix C.)

- CRA and HMDA reporting institutions began using OMB's new geographic designations in collecting loan data in 2004.
- For loan applications in metropolitan areas, a property's MSA or MD must be reported, rather than the metropolitan areas (MAs) required in 2003. When lenders report on an MSA that has been subdivided into MDs, they must report for both the MD and MSA when the properties have not been subdivided.
- CRA and HMDA reporting institutions began reporting property locations using MSA or MD codes on January 1, 2004, when the property is located in a MD.

Federal Economic Stabilization Funding and the CRA in the U.S. and Texas

On Feb. 13, 2009, Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA), more commonly known as the federal stimulus legislation. The ARRA provides $53.6 billion for the states via its State Fiscal Stabilization Fund under Title XIV. The ARRA has provided the Texas Department of Housing and Community Affairs and Office of Rural Community Affairs millions of stimulus dollars for community reinvestment.

TDHCA received $150 million for home rental assistance, housing search and credit repair activities as well as case management and other expenses. The Texas Department of Rural Affairs (TDRA) received $19.5 million in grant funding for water, wastewater and other Texas infrastructure-related projects. The funds will help strengthen local economies throughout the state by supporting job retention and affordable housing construction projects, among other purposes. The stimulus funds will be used to hire engineers and construction workers and to purchase concrete, electrical wiring and building supplies.

American Recovery and Reinvestment Act (ARRA)

Grow, Shrink or Eliminate the CRA?

As mentioned earlier, the financial services business has changed in numerous ways since the CRA became law in 1977. More than 30 years ago, financial services such as small business loans and mortgage financing were delivered differently, using less technology and within specific geographic limits.

The Glass-Steagall Act restricted the activities of commercial banks to certain kinds of business, compared to the greater freedom given to broker-dealers, investment banks and thrifts. During the past three decades, the act has been all but repealed, while a financial supermarket developed that allows a single institution to sell stocks and bonds, make loans and underwrite debt. Direct deposit, digital and Internet banking, mobile applications and other technological advances continue to reshape the financial industry.

Critics argue that the CRA increases regulatory and data reporting requirements for regulated financial institutions while encouraging banks to make unprofitable and risky loans. Supporters claim that the CRA promotes responsible lending and lines of credit in low- and moderate-income communities, where economic activity often is needed due to relatively low property values, low numbers of comparative property appraisals and reduced liquidity.[36]

When the CRA became law in 1977, banks and savings and loan institutions wrote most home purchase loans. The following two decades saw increased homeownership, as CRA regulations helped increase home loans and related credit for low- and moderate-income persons through CRA-regulated institutions. From its (CRA) passage to the 2007 financial crisis, bank activity in low-income communities grew.

CRA's supporters point to 30 years of success, including more than $5 trillion in investments in low- and moderate-income communities throughout the U.S. During this period, community development loans rose by nearly 220 percent, from less than $18 billion to more than $56 billion. Depository financial institutions in low- to middle-income neighborhoods issued a cumulative total of $513 billion through more than 12 million business loans.

After the 2005 hurricane disasters along the Gulf Coast, CRA supporters directed much of their attention to rule changes aimed at stimulating economic activity through community development lending in all areas, not only urban centers. The OTS changed its definition of community development used for savings associations to match that of the FRB, OCC and FDIC August 2005 final rule for banks. As a result, OTS' April 12, 2006 ruling encouraged savings associations to increase community development loans and services and qualified investments in nonmetropolitan middle-income areas and areas affected by disasters.

Jump to the crisis of 2007-2008 when academicians, community development specialists, the FRB and financial services industry analysts put the financial services industry under a microscope. Factors in the economic collapse and resulting worldwide recession were industry consolidation, technological innovations available to large banks, mortgage derivative investment products and previously unregulated home mortgage lending industries.

From its (CRA) passage to the 2007 financial crisis, bank activity in low-income communities grew.

CRA supporters studying the CRA's impact reported steps needed to modernize the law and apply it to non-bank financial institutions. Some actions would broaden capital and credit access for minorities in low- and moderate-income areas. A sample of suggested CRA policy changes include:

- creating rigorous transparency requirements to expose illegal and predatory lending practices, and penalties for discriminatory lending practices through lowered CRA ratings;
- ensuring that CRA exams identify lending, investments and services to minority borrowers and communities;
- evaluating small banks as frequently as large banks;
- extending the CRA to non-depository institutions, credit unions, mortgage companies, insurance firms, investment banks and securities firms; and
- revising CRA assessment areas and including non-depository bank affiliates in CRA exams; and
- refining CRA examination criteria to include separate evaluations of purchases, loan originations, prime and high-cost lending.[37]

The CRA and Lending for Small Businesses, Small Farms and Community Development in the U.S. and Texas

This section examines the recent status of small business, small farm and community development lending in the U.S. and Texas. The Comptroller's office reviewed data collected by the Federal Financial Institutions Council, the U.S. Department of Labor and the U.S. Small Business Administration. The SBA's Office of Advocacy defines "small business" as an independent business having fewer than 500 employees. According to the SBA, the U.S. had about 27.9 million small businesses in 2010.[38] Small businesses with fewer than 500 employees:

- represented about 99.7 percent of all U.S. employers;
- employed about half of all U.S. private-sector employees and 46 percent of the Texas work force;[39]
- generated more than half of all U.S. nonfarm private output and produced 46 percent of private-sector output;
- accounted for 64 percent of net new jobs created between 1993 and 2011 or 11.8 million of the 18.5 million net new jobs;[40]
- hired 43 percent of U.S. high tech workers;
- contributed more than 50 percent of nonfarm private gross domestic product;
- paid 43 percent of total U.S. private payroll;
- comprised 98 percent of firms exporting goods;
- include startups in information technology, manufacturing, retail and services; and
- borrowed $1 trillion in 2010.

Small Business, Austin, Texas

During the last decade, small businesses generated between 60 to 80 percent of net new jobs annually in the U.S. and employed more than 43 percent of the country's high-tech workers (scientists, engineers and computer workers).[41] Small businesses create the majority of new jobs, fuel competition and innovation and fill niche markets. According to SBA research, the number of new small businesses is the single most important factor in growing gross state product, state personal income and total state employment.[42]

By the middle of 2010, lending conditions for small businesses began to improve, as commercial banks began to ease the tight lending conditions that began in 2007. Loans of less than $1 million to small businesses reached $695 billion in 2009, while venture capital investment dollars increased by the middle of 2010.

Research released by the SBA Office of Advocacy in February 2011 shows that the largest lenders, with assets of more than $10 billion in 2010, held 48 percent of the value of all U.S. small business loans.[43] The greatest concentration of small business loans occurred in commercial and micro loans of $100,000 or less. Large lenders held about 75 percent of the total value. Lenders relied heavily on credit card loans in 2010.

Due to their economic importance, analysts from banking, legislative entities, federal and state regulatory agencies and small-business advocates continue to examine the factors affecting small businesses and their access to capital and credit.

Across the U.S.

Each year, FFIEC collects loan data reported by CRA-regulated entities with assets of $250 million or more, as well as institutions of any size if owned by a holding company with assets of $1.109 billion or more. This includes small business, small farm and community development loan data. The maximum small-business loan size reported is $1 million; the maximum small-farm loan size reported is $500,000.

A total of 880 lenders reported CRA data on small business, small farm and community development lending in 2010, down 6.5 percent from 941 in 2009.[44] This information came from 662 commercial banks and 218 savings institutions. The smaller number of reporting lenders in 2010 may reflect the some bank failures, a reduction in the number of voluntary reporters and mergers and acquisitions. By number of 2010 loan originations, about 92 percent of the small business loans and 77 percent of the small farm loans were for amounts of less than $100,000.[45] An estimated $179.6 billion was loaned through 13.5 million business loans; $11.8 billion was loaned through 147,000 small farm loans.

FFIEC estimated that 35 percent of small business loans made in 2010 were to small firms, compared to 38 percent in 2007 and a high of 60 percent in 1999.

2010 CRA Data
Loans to Small Businesses and Small Farms in the U.S.
With Revenues of $1 Million or Less
(Lenders Reporting to the FFIEC = 880)

Description	Small Businesses	Small Farms
Total Dollars Loaned	$ 180 billion	$ 11.8 billion
Total Number of Loans	4,300,000	147,000
Average Loan Amount	$ 41,900	$ 80,300
Percentage of Loans to Businesses with Less than $1 Million in Revenues (based on number of loans)	35%	77%
Percentage of Loans Under $100,000	92%	77%

Source: Federal Financial Institutions Examinations Council.

The 2010 CRA data indicate that 35 percent of reported small business loans and 77 percent of small farm loans were made to businesses with revenues of $1 million or less.

FFIEC estimated that 35 percent of small business loans made in 2010 were to small firms, compared to 38 percent in 2007 and a high of 60 percent in 1999. Changes in bank data collection practices and renewals with higher credit limits, as well as tightened credit during the financial crisis, may have dampened lending to small businesses in recent years. Small business loans made by banks also may go unreported, since a number of banks no longer collect revenue-size data from business loan customers. According to the FFIEC, 18 previous reporters and fewer voluntary reporters factored into the decrease in reported loan originations.

Of small business loans reported under the CRA, 88 percent were concentrated in principal city and suburban areas, while 63 percent of the small farm loans, as measured by the number and dollar amount, were made in rural areas.

When measured by the number of loans outstanding, CRA reporters comprise an estimated 82 percent of small business loans and 20 percent of small farm loans by all commercial banks and savings institutions. Large institutions issued the majority of these loans. In 2010, institutions with assets of $1.098 billion or more as of Dec. 1, 2009 originated or purchased 93 percent of small business loans reported under the CRA, based on dollar value.[46]

For all CRA-reported 2010 community development lending, 823 institutions extended loans; 648 offered community development loans. FFIEC found the average small business loan was about $33,200 and the average small farm loan was about $78,200. About 92 percent of the small business loans and 77 percent of the small farm loans were for amounts of less than $100,000. An estimated $206 billion was loaned through 6.2 million small-business loans; $11.7 billion was loaned through 150,000 small farm loans.

Equifax research data on national bankruptcy trends by metropolitan statistical area from Q4 2009 to Q4 2010 found that 10 of the 15 MSAs with the largest number of small business bankruptcies in Q4 2010 saw a decline compared to one year earlier. The study examined data on 24 million small businesses to reveal that their bankruptcy petitions decreased in much of the U.S. Even so, economic problems in California continued in 2010; the state accounted for about 20 percent of all U.S. business failures. The Dallas-Plano-Irving MSA's Q4 2009 bankruptcies totaled 367, compared to 327 in Q4 2010, for a drop of 11 percent. Both Amarillo and Killeen-Temple-Fort Hood saw a drop in their already low rate of small business bankruptcies in the same period, with totals of eight and seven bankruptcies respectively. Equifax's study analyzed Chapter 7, 11 and 13 filings of small businesses, classified as commercial entities with fewer than 100 employees.[47]

In Texas

According to the SBA Office of Advocacy, small businesses are the single largest source of new employment growth in Texas, providing thousands of new jobs for minorities and women. Nationally, small businesses create two out of every three new jobs.[37] Small businesses include small employers with fewer than 499 employees or less, large employers with 500 or more employees and non-employers, which are businesses that operate without employees. As of 2008, the SBA Office of Advocacy estimated that Texas had 2.2 million small businesses based on U.S. Census Bureau data, including 391,000 small employers, 5,400 large employers and 1.84 million nonemployers. The construction industry accounted for the state's largest number of small-business employers in 2008.[48]

Small Business, Austin, Texas

Financing Small Business in the U.S. and Texas

Research published by SBA since the 2009 update reflects the continued trend of large loan institutions dominating the commercial, industrial and small business lending markets. Angel investment funds provide the largest source for seed and startup capital.

Small businesses borrow to purchase inventory and build financial assets. Depending on the purpose, small firms and entrepreneurs finance business operations through debt and equity. Types of debt include owner debt, government loans and money from family and friends. Other business debt may involve vendor financing, loans from a company to a customer that allow the customer to buy products from it. Also involved are leasing companies that finance equipment for small business. Leasing allows small companies avoid tying up cash in equipment, making funds available for marketing, working capital or seasonal cash flow needs. Leasing also allows small businesses to fully expense lease payments as a rental providing valuable tax deductions.[49] Other types of small company borrowing include crowd funding, the selling of small amounts of equity to many investors.[50] Small businesses also may obtain hybrid capital in the form of securities such as trust-preferred securities.[51]

Borrowing by small businesses totals an estimated $1 trillion annually in the U.S. In 2010, total outstanding small business bank loans reached more than $650 billion. About $460 billion worth of additional credit came from finance companies. The Office of Advocacy Research explains that a reduction in finance company lending has been a major contributor to tight credit conditions facing small businesses since the recession.

Most Texas small businesses obtain capital from commercial bank loans. The remainder obtains financial support through other methods, mostly small local commercial lenders. Small-business startups often begin with the equity of individuals, nonprofit organizations and venture capital funding. Venture capital includes investments in private, young and fast-growing companies. While widely used, credit card financing represents only about 7 percent of small business capital, according to the National Small Business Association.[52]

Credit Unions and Small Business Lending

Credit unions provided extra business lending in the financial crisis, partly in response to tightened bank lending standards. Research released in September 2011, based on Federal Reserve Board data, indicates that credit unions increased their loans to small businesses to offset reductions in bank business lending between 2009 and 2011. The number of credit unions making business loans has risen from 800 (5 percent of the 15,720 credit unions in the U.S.) in 1986 to just under 2,250 (30 percent) of the nation's 7,500 credit unions) in 2010.[53]

Credit unions provided extra business lending in the financial crisis, partly in response to tightened bank lending standards.

Community Development Lending Across the U.S. and Texas

CRA guidelines encourage community development loans to provide support primarily for affordable housing for low- or moderate-income persons and community services for these populations, including activities that foster economic development through small business or small farm loans. Community development corporations and related financial institutions use the loans to revitalize low- and moderate-income communities.

Rural Areas Benefit from Definition of Community Development

The federal banking and thrift regulatory agencies revised the CRA regulations after the devastation left by hurricanes Katrina and Rita in 2005. Banks can now offer their CRA assessment areas more options for investments, services and loans. Revitalization or stabilization activities must help distressed or underserved, nonmetropolitan middle-income areas based on poverty rates, loss of employment and population density.

The Office of the Comptroller of the Currency (OCC) defines middle-income geography as a Census-defined tract in which individual income is at least 80 percent and less than 120 percent of the area median income. The changes allow national banks to receive CRA credit for investments in communities affected by either of the two hurricanes, whether they are in their assessment areas or not. Examples of investment options include:

- affordable housing for low- and moderate-income persons;
- bank activities in rural areas that help stabilize or stimulate federally designated disaster areas;
- community services for low- or moderate-income persons;

- disaster recovery, including new house construction and house and manufactured housing repairs, to attract new businesses and residents and support existing ones;
- financing for new septic lines for low- and middle-income individuals; and
- loans for small-business or small-farm activities that stimulate designated disaster areas or defined non-metropolitan, middle-income areas that are underserved or distressed.

This applies to geographic areas in which median family income is at least 80 and less than 120 percent of the area median income.[41]

Texas Community Development Block Grant Program (CDBG)

The 2011 Texas Legislature abolished the Texas Department of Rural Affairs (TDRA) and transferred the majority of its responsibilities to the Office of Rural Affairs at the Texas Department of Agriculture (TDA). The transfer was completed on Oct. 1, 2011. TDA's Office of Rural Affairs includes the Texas Community Development Block Grant Program (TxCDBG) unit and the Texas State Office of Rural Health.

The TxCDBG administered by TDA focuses on providing basic human needs and sanitary infrastructure to rural communities. Local needs eligible for financial assistance include clean drinking water, sanitary sewer systems, disaster relief and urgently needed projects including housing, drainage and flood control, navigable streets, economic development, community centers and other related activities.

All proposed activities must meet one of the following three U.S. Department of Housing and Urban Development (HUD) National Program Objectives: they must principally benefit low- and moderate-income persons; aid in the elimination of slums; or meet other community development needs of particular urgency that represent an immediate health or safety threat to community residents.

The TxCDBG program is the nation's largest. U.S. HUD awarded the program \$79,264,729 for program year 2010 and \$66,604,562 for 2011.[54] The program serves 1,015 HUD-designated nonentitlement cities and 244 HUD-designated nonentitlement counties or rural communities. Nonentitlement cities are cities with populations under 50,000; non-entitlement counties are those with fewer than 200,000 persons in their nonentitlement cities and unincorporated county areas. The TxCDBG program provides services to more than 483,000 Texans annually.

The program's primary objective is to develop viable communities by providing decent housing, suitable living environments and economic opportunities. More information can be found on the Texas Department of Agriculture's website. The following table identifies the amounts and purposes of funds administered by TxCDBG.

U.S. Department of Housing and Urban Development

Texas Community Development Block Grant Program

2011 CDBG Funding Summary

Fund	Amount
Community Development Fund	$41,101,675
Texas Capital Fund	$9,664,322
Colonia Planning and Construction Fund	$4,660,456
Colonia Economically Distressed Areas Program (EDAP) Fund	$2,000,000
Colonia Self-Help Centers Fund	$1,665,114
Disaster Relief/Urgent Need Fund	$2,730,787
Planning and Capacity Building Fund	$2,018,025
Small Towns Environment Program	$2,499,883

Source: Texas Department of Agriculture.

Texas CDBG Program Funds

The *Community Development Fund* is the largest fund in the TxCDBG program. Every biennium, eligible cities and counties may apply through a regional competition for Community Development Fund assistance. Eligible activities include infrastructure projects such as drainage, sewer and water system improvements, housing rehabilitation and improvements to bridges and streets. Each of the 24 state planning regions receives an annual allocation based on its population, poverty and unemployment levels.[55]

The Colonia Construction Fund targets assistance to colonias located within 150 miles of the Texas-Mexico border.

The *Texas Capital Fund (TCF)* is used for projects that will create or retain permanent employment opportunities, primarily for low to moderate-income persons.[56]

The *Planning and Capacity Building Fund* provides assistance for planning activities that assess local needs. It also supports the development of strategies to address local needs or build or improve local capacity, and other needed planning elements (including telecommunications and broadband needs).[57]

While TDRA focuses most of its efforts on rural communities statewide, several funds are directed specifically to the *colonias*, economically depressed, unincorporated residential areas along the Texas-Mexico border. About 400,000 Texans live in *colonias* that lack potable water, sewage systems, electricity, paved roads and sanitary housing.[58] Funds directed to county applicants for projects in these areas include the *Colonia Construction Fund*, *Colonia Economically Distressed Areas Program Fund,* the *Colonia Self-Help Centers Fund and the Colonia Planning Fund*.

The *Colonia Construction Fund* targets assistance to *colonias* located within 150 miles of the Texas-Mexico border. The fund is used primarily to construct safe, sanitary and cost-effective water and sewer facilities for *colonias* that lack basic infrastructure.[59]

The *Colonia Economically Distressed Areas Program Fund* is used to provide assistance to *colonia* areas connecting to a water and sewer system improvement project funded by the Texas Water Development Board's Economically Distressed Areas Program (EDAP). TxCDBG funds provide water or sewer connections/yard lines to water and sewer systems funded through EDAP.[60]

The *Colonia Self-Help Centers Legislative Set-Aside* is part of TDRA's TxCDBG program, but is administered by TDHCA through an interagency agreement. The

TxCDBG program funds *colonia* self-help centers that provide assistance to low-income individuals and families in financing, refinancing, building, improving or maintaining a safe, suitable home in a designated *colonia* service area, in a county designated as economically distressed under the EDAP and eligible to receive EDAP funds; the *colonias* served by the center must be located within 150 miles of the Texas-Mexico border.[61]

The *Colonia Planning Fund* provides financial assistance to eligible counties located within 150 miles of the Texas-Mexico border. Similar to the Planning and Capacity Building Fund, this fund also provides assistance for planning activities that assess local needs, develop strategies to address them and build or improve local capacity. [62]

The *Disaster Relief Urgent Need Fund* provides assistance for eligible applicants to address situations of recent origin that were unanticipated and beyond their control. For disaster relief assistance, this means the application for assistance must be provided within 12 months from the date of a presidential or gubernatorial disaster declaration.[63] For urgent-need assistance, the situation must have occurred or been discovered no more than 30 days prior to the date of a written request to TDRA.[64] The applicant must demonstrate that local funds or funds from federal sources or another state source are not available to address the problem. The TxCDBG program often coordinates distribution of funds with other state agencies.

The *Small Towns Environment Program (STEP)* is a TxCDBG fund that provides funds to eligible applicants for water and sewer infrastructure improvements utilizing self-help methods. The community must provide local volunteer labor and material resources such as equipment to demonstrate a 40 percent saving off the retail construction price of the project.[65]

Installation of underground electric utility cable in a *colonia* near the Texas-Mexico border.

Texas State Office of Rural Health

TDA's Texas State Office of Rural Health serves 150 rural hospitals and benefits nearly 4 million rural Texans. The office's mission is to facilitate and coordinate the use of available resources to help rural Texans enhance their quality of life, achieve sustained economic growth and strengthen local healthcare systems and infrastructure. It works with local, state and federal partners to develop, support and coordinate programs and services to improve access to health services in rural areas of the state. It also facilitates and guides efforts in rural health policy design, service planning, resource allocation and program implementation.[66]

Jobs for Texas

TDA's Jobs for Texas (J4T) is an innovative program designed to increase small business' access to capital and enable private entrepreneurs to make market-driven decisions to grow jobs. The J4T program won a $46.5 million award from the U.S. Department of the Treasury as part of the State Small Business Credit Initiative (SSBCI).

J4T includes a loan guarantee program (J4T-LG) and a venture capital fund investment program. Texas financial lenders, businesses and investors can use the programs to increase the amount of credit available to qualifying small businesses, as defined by the SSBCI. These funds will enhance economic development and private investment in Texas by helping small businesses grow and create jobs through the allocation of approximately $10.5 million in loan guarantees and $36 million in venture capital programs.

Texas lenders, including national and state banks, credit unions and community development financial institutions, are eligible to participate in the J4T-LG program. Each can use the guarantees to increase the amount of credit available to qualifying small businesses. Financial institutions will use their own underwriting criteria to determine the loans for which they will see J4T-LG guarantees. J4T-LG may guarantee qualifying loans for up to 50 percent of the principal balance.

Loan proceeds can be used for any business purpose, including startup costs, working capital, business procurement, franchise fees, equipment and inventory. Loans also may be used for the purchase, construction, renovation or tenant improvements of an eligible business.

J4T-LG adheres to the reporting requirements of the Treasury Department, including geocoding the locations of investments made under the program. Lending institutions participating in the program may already be subject to CRA reporting requirements.

Disaster Recovery Administration in Texas

On July 1, 2011, the General Land Office (GLO) became the lead state agency managing disaster recovery grants through the U.S. Department of Housing and Urban Development. With an extensive background in disaster recovery, GLO successfully coordinated the cleanup of the Texas Coast following hurricanes Ike and Dolly. Disaster recovery efforts from Dolly and Ike affect more than 11 million Texans in 62 counties. GLO will continue to partner with private firms to assist disaster recovery efforts.

On July 1, 2011, the General Land Office (GLO) became the lead state agency managing disaster recovery grants through the U.S. Department of Housing and Urban Development.

Hurricanes Ike and Dolly Funding

In 2008, TDRA was initially designated as the Texas state agency responsible to HUD for grant administration of all TxCDBG supplemental disaster recovery funding on behalf of the state. In this capacity, TDRA was responsible for overseeing the administration of CDBG funds for all housing, non-housing and economic development disaster recovery activities. In cooperation with TDRA, the Texas Department of Housing and Community Affairs (TDHCA) was responsible for activities related to housing recovery.

In view of this responsibility, and the urgency of allocating funds to affected communities quickly, TDRA created a Disaster Recovery unit to oversee the Hurricane Ike/Dolly funds and manage the Hurricane Rita non-housing funds.

Ike/Dolly Round 1 Funding

On Feb. 13, 2009, HUD announced an initial allocation to Texas of $1,314,990,193 under Title IV of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, due to the natural disasters of 2008. A second allocation of $1,743,001,247 was announced on Aug. 14, 2009. A third allocation of $67,949,391, related to the Disaster Recovery Enhancement Fund (DREF), was announced through a letter from HUD Assistant Secretary Mercedes Márquez dated October 6, 2010.

In fall 2010, TDRA reported that approximately $591,232,327 of the first two allocations had been designated for non-housing and economic development purposes under TDRA's authority. The remaining funds were allocated to TDHCA for housing and administration, with project delivery support by TDRA and TDHCA. The initial Action Plan distributed funds to affected regions based upon the FEMA public assistance and individual assistance data available as of Dec. 1, 2008. Responsibility for further distributions was assigned to the Regional Councils of Governments, using their objective method of distribution (MOD), on the assumption that local officials could best determine local needs. Replicable and verifiable data were required for this process and use of physical damage criteria was strongly recommended. TDRA began receiving application in May 2009. In the course of 15 months, TDRA awarded all available Round One disaster recovery grants for a total of $591,232,326, funding more than

700 project activities covering 2,149 separate construction sites, three forgivable loan programs and multiple planning studies.

Counties receiving grants in their jurisdictions include Anderson, Angelina, Aransas, Austin, Bowie, Brazoria, Brooks, Burleson, Calhoun, Cameron, Cass, Chambers, Cherokee, Fort Bend, Galveston, Gregg, Grimes, Hardin, Harris, Harrison, Hidalgo, Houston, Jasper, Jefferson, Jim Hogg, Jim Wells, Kleberg, Leon, Liberty, Madison, Marion, Matagorda, Milam, Montgomery, Morris, Nacogdoches, Newton, Nueces, Orange, Panola, Polk, Refugio, Robertson, Rusk, Sabine, San Augustine, San Patricio, Shelby, Smith, Starr, Trinity, Tyler, Upshur, Victoria, Walker, Waller, Washington, Wharton and Willacy.

The state received two separate allocations of Community Development Block Grants from HUD totaling $3.1 billion. The distribution occurs in three main phases. The first, Round 1, totaled $1,314,990,193, with housing funds administered locally by 18 different subrecipients across the affected region, and non-housing funds contracted to more than 200 grantees for infrastructure projects and economic development activities.

The second allocation of $1,743,001,247 was split between two phases, Rounds 2.1 and 2.2. Funds distributed under Round 2.1 were allowed to move forward under certain conditions, prior to an updated Phase 1 Analysis of Impediments (AI). All Round 2.1 projects are only for non-housing and planning activities. The Round 2.2 funds must consider the impediments to fair housing identified in the recently HUD-approved Phase I AI. The distribution of funding for Round 2.2 will occur in 2012.

Texas wildfire damage, 2011

Ike/Dolly Round 2 Funding

Distribution of Round Two funds, according to TDRA's fall 2010 report, was severely affected by a fair housing complaint filed with HUD. For Round Two, TDRA obtained additional consultant services for guidance on best practices related to Affirmatively Furthering Fair Housing, and has provided training to communities on new standards for local fair housing and Section 3 workforce programs. Application workshops and technical assistance visits were conducted with interested Hurricane Dolly/Ike communities after which TDRA received 76 applications for Round 2.1 funds.

The Round 2.1 application cycle, covering 28 percent ($461,828,214) of the Round Two funds, was allowed to move forward contingent on a specialized process including project approval power by the complainants in the fair housing administrative complaint to HUD. As of December 2010, TDRA was in the process of reviewing applications and forwarding them to the complainants for review. Actions toward the remaining funding were reported by TDRA as contingent on TDHCA's approval of the Analysis of Impediments to Fair Housing for submittal to HUD during the same period.

Hurricanes Katrina and Rita

In response to hurricanes Katrina and Rita, Texas received two rounds of funding for a total of $116,523,000. TDRA was allocated $73,837,574 for non-housing grants. TDHCA was responsible for the administration of the remaining funds for housing activities intended to assist with long-term recovery efforts and infrastructure restoration to restore critical infrastructure available to affected governments within four Council of Governments (COG) areas, the East Texas Council of Government (ETCOG), Deep East Texas Council of Government (DETCOG), Southeast Texas Regional Planning Commission (SETRPC) and Houston-Galveston Area Council (HGAC).

A total of 102 awards were made possible by Rita 1 and Rita 2 funding. As of December 2010, approximately $29,424,222 or 96.4 percent of the $30,537,574 Rita 1 funding and approximately $33,812,306 or 78 percent of the $43,300,000 Rita 2 funding had been spent. The remainder will be paid upon completion of Rita 1 and Rita 2 projects.

Wildfires

Texas has been allocated $31,319,686 in CDBG funds from the U.S. Department of Housing and Urban Affairs as disaster recovery assistance for wildfires occurring between April 6 and December 31, 2011. The Bastrop area fires destroyed more than 3,000 homes and burned more than 34,000 acres.[67]

HUD directed Texas to target at least 80 percent of this assistance to Bastrop County. Governor Perry designated the Texas General Land Office as the administrator of these funds. HUD issues federal guidelines on how Texas can expend the funds before official action may take place. GLO has presented its preliminary plan for spending $20 million to rebuild between 150 and 200 homes destroyed in the fall 2011 Bastrop-area wildfires. Fire victims may apply by calling the Land Office Recovery Hotline, 1-866-206-1084.

Rural Sustainability Fund

The Rural Sustainability Fund (RSF) was authorized by the 2009 Texas Legislature to supplement the TxCDBG program. TDRA's fall 2010 report said it had funded an additional 27 rural communities and counties that had submitted applications for the TxCDBG Community Development Fund in 2009 and 2010. Most projects were for basic services such as water, sewer and street improvements.

The Bastrop area fires destroyed more than 3,000 homes and burned more than 34,000 acres.

American Recovery and Reinvestment Act and TDRA

The American Recovery and Reinvestment Act (ARRA) appropriated $1 billion to the U.S. Department of Housing and Urban Development's CDBG program to provide funds to states and local governments for eligible activities under the CDBG program. TDRA received about $19.5 million in Recovery Act funds.[57] As of fall 2010, TDRA reported it had funded an additional 75 rural communities and counties that had submitted applications to TDRA for the TxCDBG's Community Development Fund. As of September 30, 2010, TDRA had expended $6.7 million in Recovery Act funds to create employment positions and retained just under 245 jobs.[57]

Renewable Energy Desalination Fund

The *Renewable Energy Desalination Fund* was authorized by the 2009 Texas Legislature to provide grants to eligible applicants for the installation of wind turbines to desalinate brackish groundwater and create new drinking water sources.

Community Reinvestment and State Agency Programs

Banking

Financial institutions contribute to the community and economy through community reinvestment programs that help individuals, community service organizations, educational units and small businesses. By making donations and extending credit, institutions can assist in meeting the needs of their communities. Banks provide businesses with an opportunity to obtain capital loans that create employment opportunities, which can lead to consumer spending, homeownership and more.

Over the past few years, the falling number of locally owned banks, as smaller institutions have been acquired by larger regional, national or global banks, has negatively affected Community Reinvestment Act (CRA) programs. Technology and the Internet also have affected CRA. Much of today's banking is performed online, minimizing the need for retail branches. Loan applications are taken and approved online, reducing the importance of an institution's physical presence. Institutions are not required to equally serve communities where they have no physical presence.

Banks provide businesses with an opportunity to obtain capital loans that create employment opportunities, which can lead to consumer spending, homeownership and more.

For the first period in many years, no new state-chartered banks opened in the last half of 2009, contributing to a decline in the number of Texas state-chartered banks from 326 to 318. As of Dec. 1, 2010, there were 314 state-chartered banks in Texas, and no new charters were formed during 2010. The Texas Department of Banking anticipates little new activity until a stronger economic recovery. The DOB, however, continues to see applications for mergers and acquisitions.

Nevertheless, branching activity continues in Texas. Changes to Texas laws regarding branching, along with the state's improving economy, central geographic location and growing workforce, have made Texas an attractive place for banks to expand. Twenty-one state banks from other states operate branches in Texas, along with 19 national banks. Changes in federal legislation will further affect branching activity. Provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act now give banks de novo interstate branching authority. It is anticipated that community banks in state and out will reevaluate their business plans and adjust for this new opportunity.

Other provisions of the Dodd-Frank bill will further affect CRA reporting. In particular, Section 1094 amended HMDA to require financial institutions to collect and report new data for mortgage loans including the applicant's age, credit score and race, ethnicity and gender of the principal owner. For nonmortgage loans, the Federal Reserve System Board will determine ethnicity and gender based on the U.S. Census Bureau's Spanish surname list and female first name list. In the case of mortgage and nonmortgage loans, the board will use census data to determine majority-minority census tract and whether there are loan differences between minority and nonminority areas.[68] The deadline for implementation was Jan. 1, 2012. Also, the creation of a Consumer Financial Protection Bureau (CFPB) was authorized to oversee Home Mortgage Disclosure Act (HMDA), CRA and Fair Lending compliance. The objective of added oversight is to help ensure that lending institutions are equally serving the financial needs of communities.

The DOB promotes and supports bank participation in community reinvestment programs. As an incentive and pursuant to 7 TAC §15, the DOB waives corporate fees for applicants that plan to serve low- to moderate-income areas. The DOB monitors how well banks are meeting the needs of their communities through funding of affordable housing projects, loans to low- and moderate-income businesses and individuals, and projects compliant with the CRA.

Unbanked Cities in Texas Compared to the U.S.

According to a 2009 FDIC Survey, 26 percent of U.S. households or 30 million are "unbanked." In Texas, the figure is 36 percent or 3.2 million households. For banks, this offers an opportunity to serve an untapped market. The DOB promotes financial literacy throughout the state, holding workshops and visiting banks to discuss the benefits of financial education programs. The DOB's Financial Literacy Coordinator provides tools and program startup materials for educational programs. The department also provides consumer assistance through its website (www.dob.texas.gov), which contains instructions on how to file a complaint as well as a toll-free number and email address to the consumer assistance area. Financial literacy and other consumer topics are also addressed in periodic agency publications.

About 9 million U.S. households are unbanked. The unbanked do not use traditional financial products or services such as checking or savings accounts. Another 21 million "underbanked" households have bank accounts, but use alternate financial services including check-cashing services, payday loans, rent-to-own agreements or pawnshops. The prevalence of unbanked and underbanked individuals in the U.S. varies by age, citizenship, educational attainment, income, race and ethnicity. Most unbanked places in the U.S. are rural and very small towns.

The top five unbanked states in the U.S. are Mississippi, Washington, D.C., Georgia, Kentucky and Texas.

The top five unbanked states in the U.S. are Mississippi, Washington, D.C., Georgia, Kentucky and Texas. Three of the top unbanked large U.S. cities are located in Texas as well — Dallas, El Paso and Houston. Texas has 36 communities among the top 100 unbanked cities, towns or census-designated places with more than 250 households, ahead of Mississippi (17), Arizona (10), Louisiana (6), Alabama (5) and New Mexico (5). Starr County, Texas, located on the U.S.-Mexico border, has fewer than 15,000 households, and is the most unbanked county in the country, with 32.7 percent of its households unbanked and 28.2 percent underbanked.[69] Among mid-sized cities with 50,000-100,000 households, Laredo, Texas (21.8 percent) and Newark, New Jersey (21.1 percent) have the largest unbanked rates.

Economic Development

The Texas Governor's Economic Development and Tourism Division (EDT) maintains an Economic Development Bank that was created by combining finance programs previously administered by the Texas Department of Economic Development. The EDT and Economic Development Bank administer several incentive programs, including the Texas Enterprise Fund, the Texas Emerging Technology Fund, the Texas Product/Business Fund, the Texas Industry Development Loan Program, the Texas Enterprise Zone Program, the Texas Leverage Fund and Texas Industrial Revenue Bonds.

EDT works with companies seeking to expand in or relocate to Texas communities and administers programs that encourage the financing of local economic development projects. Texas takes the initiative to invest in its future by offering competitive incentives to companies that create jobs and drive innovation in the state.

Top Five Unbanked States

Source: Corporation for Enterprise Development, 2011.

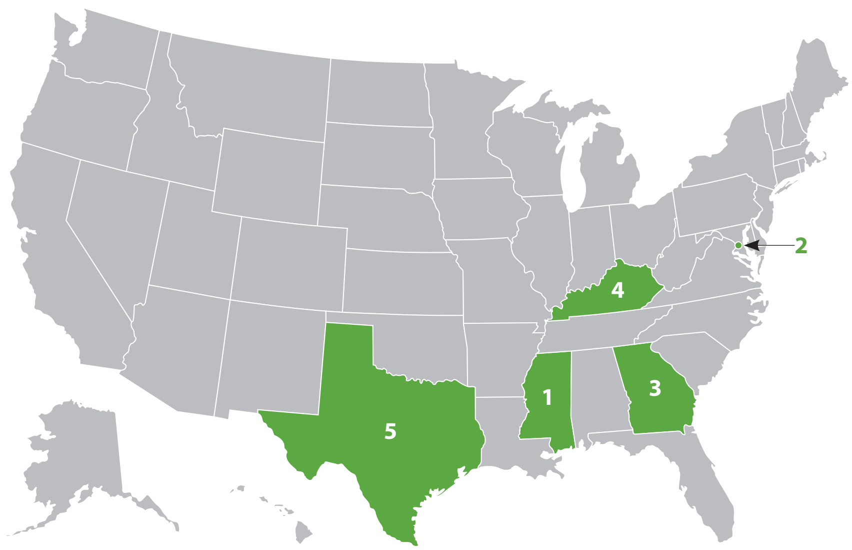
1. Mississippi
16.4% Unbanked
25.2% Underbanked

2. Washington, D.C.
12.2% Unbanked
23.9% Underbanked

3. Georgia
12.2% Unbanked
19.4% Underbanked

4. Kentucky
11.9% Unbanked
23.7% Underbanked

5. Texas
11.7% Unbanked
24.1% Underbanked



Top 10 Unbanked Large Cities
(More than 100,000 Households)

Source: Corporation for Enterprise Development, 2011.

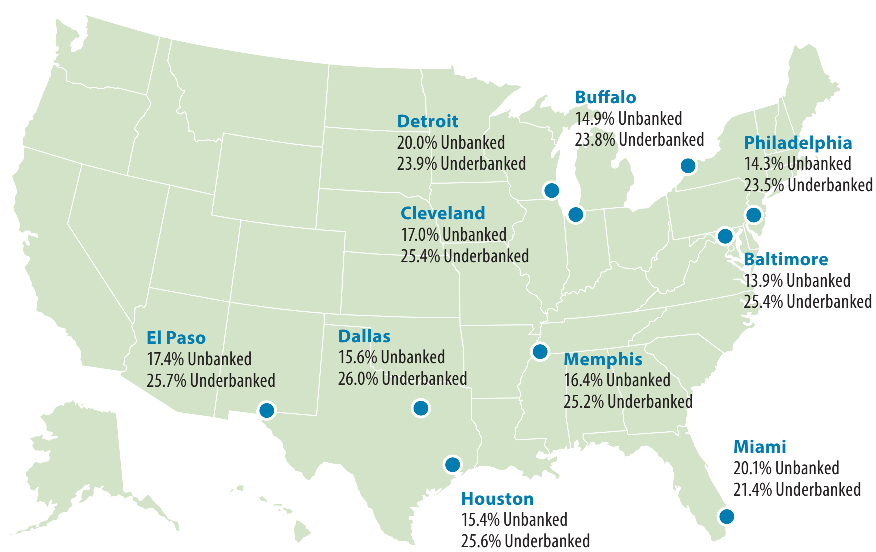
1. Miami, FL
20.1% Unbanked
21.4% Underbanked

2. Detroit, MI
20.0% Unbanked
23.9% Underbanked

3. El Paso, TX
17.4% Unbanked
25.7% Underbanked

4. Cleveland, OH
17.0% Unbanked
25.4% Underbanked

5. Memphis, TN
16.7% Unbanked
28.1% Underbanked



6. Dallas, TX
15.6% Unbanked
26.0% Underbanked

7. Houston, TX
15.4% Unbanked
25.6% Underbanked

8. Buffalo, NY
14.9% Unbanked
23.8% Underbanked

9. Philadelphia, PA
14.3% Unbanked
23.5% Underbanked

10. Baltimore, MD
13.9% Unbanked
25.4% Underbanked

The following overview examines select incentives and programs maintained and administered via the Governor's Office Economic Development and Tourism Division and its Economic Development Bank Division.

Texas Enterprise Fund (TEF)

The Texas Enterprise Fund (TEF) is the nation's largest "deal-closing" fund of its kind. The fund provides cash grants as a financial incentive for projects that offer significant projected job creation and capital investment, in cases in which a single Texas site is competing with another viable out-of-state option.

Award dollar amounts are determined using an analytical model applied to each TEF applicant. This model determines whether Texas will see a full return on its investment within the period of a project contract due to the resulting increase in sales tax revenues. Variations in award amounts are influenced by the number of jobs to be created, the expected timeframe for hiring and the average wages to be paid. In the past, awards have ranged from $194,000 to $50 million.

Texas Emerging Technology Fund (TETF)

The Texas Emerging Technology Fund (TETF) is a cash grant program designed to help Texas create jobs and grow the economy over the long term by expediting the development and commercialization of new technologies and attracting and creating jobs in technology fields. The program works through partnerships between the state, higher education institutions and private industry to focus greater attention on the research, development and commercialization of emerging technologies.

The Texas Product/Business Fund provides asset-backed financing to both Texas and out-of-state companies currently doing business in the state.

Texas Product/Business Fund

The EDT Economic Development Bank administers the Texas Product/Business Fund at the direction of the Governor's nine-member appointed board. Preference for funding is given to the state's defined industry clusters, currently including nanotechnology, biotechnology, biomedicine, renewable-energy, agriculture and aerospace. Job creation and retention within Texas are funding priorities.

The Texas Product/Business Fund provides asset-backed financing to both Texas and out-of-state companies currently doing business in the state. Financing is provided by direct asset-based loans with a variable interest rate tied to London Interbank Offered Rate (LIBOR). Loans can be amortized up to the life of the asset.

Texas Leverage Fund

Introduced in 1992, the Texas Leverage Fund (TLF) provides an additional financing source to communities that have adopted an economic development sales tax. Communities may leverage future sales tax revenues to support job retention or creation.

Available for interim, long-term or gap financing, TLF loans provide flexible financing terms to match communities' unique needs, with maturities of up to 15 years available. Generally, EDCs are eligible to borrow four to five times annual sales tax revenues, up to $5 million. TLF loans are low-cost, providing capital to communities at the floating prime rate published in the *Wall Street Journal*.

Future sales tax revenues serve as collateral for loan repayment with required debt service coverage ratios specified in the Texas Leverage Fund Program Guidelines. Pledged tax collections not needed for actual debt service are available for other projects.

Industrial Revenue Bond Program

The Texas Industrial Revenue Bond Program (IRB) is designed to provide tax-exempt or taxable financing for eligible industrial or manufacturing projects as defined in the Development Corporation Act of 1979.[70] The Act allows cities, counties, conservation and reclamation districts to form nonprofit industrial development corporations (IDCs) or authorities on their behalf. The purpose is to provide bonds for projects within their jurisdictions.

The IDC acts as a conduit through which funds are channeled. Generally, bond debt service is paid by the business under the terms of a lease, sale or loan agreement, and does not constitute a debt or obligation of the governmental unit, the IDC or the state.

The IDC issuing the bonds must pass a declaration of official intent resolution (tax-exempt only) and a bond resolution approving the project; set the bond amount; and make findings required by state law. In addition, the governmental unit of the IDC must pass a resolution that approves the corporate resolution and the project. All terms of the bond sale are negotiated among the appropriate parties, with documents prepared by legal counsel.

Industry Development Loan Program

The Texas Industry Development (TID) Loan Program, administered by the EDT, provides capital to Texas communities at favorable market rates. The main objective of TID is to support projects that will stimulate the job creation, corporate expansion and company relocation. TID loans can be used to acquire land, buildings, construction, machinery and equipment. The financing is available for loans greater than $5 million. TID loans generally are requested by a community's economic development corporation (EDC) and are repaid by project revenues. The term of the loan cannot extend beyond the useful life of the assets or bond maturity in 2025.

The TID program operates within a nonprofit entity incorporated under the Development Corporation Act of 1979.[71] The 1981 Legislature authorized the Texas Small Business Industrial Development Corporation (TSBIDC) to issue bonds for economic development projects. TID loan obligations do not constitute any liability on the part of the state. Starting in 1983, TSBIDC issued special limited revenue obligations supporting job creation and capital investment for Texas businesses and communities.

Texas Biomedical Research Institute, San Antonio, Texas

PHOTO: Courtesy of Clem Spalding and San Antonio Economic Development Foundation

Enterprise Zone Program

The Texas Enterprise Zone Program (EZP) is an economic development sales tax incentive partnering the state and local governments to help local employment and support business investment. The EZP is performance-based and allows qualified businesses to receive a refund of state sales and use taxes, ranging from $2,500 to $7,500 per job created and/or retained during a five-year period, up to a maximum of $1.25 to $3.75 million. The amount of refund is related to the capital investment and jobs at the qualified business site.

Housing

The Texas Department of Housing and Community Affairs (TDHCA) provides a range of housing support programs including homelessness assistance, multifamily development and rental assistance, home rehabilitations and weatherization, disaster recovery and foreclosure relief.[72]

TDHCA administered $637.8 million in such funding in fiscal 2010.[73] More than 96 percent of that amount supports federal grants, tax credits and other programs. It should be noted that, with the exception of the Section 8 Housing Choice Voucher Program, TDHCA administers programs and services through a network of organizations across Texas and does not fund individuals directly. Almost 99 percent of the households/individuals served by TDHCA housing programs in fiscal 2009-2010 had incomes at or below 50 percent of the area median family income.[74]

Beyond providing for people's basic needs, TDHCA's housing programs also support the Texas economy's construction sector. The National Association of Homebuilders (NAHB) reported in 2009 that the estimated one-year local impact of building 100 single-family homes in a typical metro area includes $21.1 million in local income, $2.2 million in taxes and other revenue for local governments and 324 local jobs. The annually *recurring* impacts of building 100 single-family homes in a typical metro area include $3.1 million in local income, $743,000 in taxes and other revenue for local governments and 53 local jobs.[75] Using the NAHB's economic benefit calculations, the fiscal 2010 economic impacts of TDHCA's single family and multifamily activities are approximately $611.6 million in local income, $63.5 million in taxes and 9,340 jobs. The recurring impacts of TDHCA's single family and multifamily activities for fiscal 2010 are approximately $178 million in local income, $31.9 million in taxes and 2,324 jobs.[76]

The annually recurring impacts of building 100 single-family homes in a typical metro area include $3.1 million in local income, $743,000 in taxes and other revenue for local governments and 53 local jobs.

Homelessness and Poverty-Prevention Services

For Texans who are homeless or are facing the prospect, TDHCA offers several assistance programs, including the *Emergency Shelter Grant Program* (ESGP), which funds organizations that renovate buildings for use as shelters or that provide homelessness prevention services. TDHCA committed more than $5.04 million to the program in fiscal 2010, indirectly serving 69,564 individuals.[77]

ARRA created a new program called the *Homelessness Prevention and Rapid Re-Housing Program* (HPRP) to help prevent homelessness. TDHCA was allocated about $41.47 million from HPRP, awarding it to 58 eligible applicants including local units of government and qualifying nonprofit organizations. The funds were to be used in contracts awarded during fiscal 2010 and 2011 for homelessness prevention assistance and to rapidly re-house homeless Texans. TDHCA was required to disburse all funds by July 16, 2012. From the beginning of the program to end of state fiscal 2010, 11,123 households were served.[78]

The 2009 Texas Legislature appropriated $20 million in general revenue funds over the fiscal 2010–2011 biennium for the *Homeless Housing and Services Program* (HHSP) administered by TDHCA. The funds are used to assist regional urban areas to support local initiatives to provide services to homeless individuals and families. HHSP funding covers case management, construction of facilities, direct services, homeless prevention, housing retention and rental assistance. TDHCA also will seek federal funding to provide financial assistance under HHSP. TDHCA awarded funds through a competitive matching grant process to eight of the state's largest cities with populations larger than 285,500 persons, as per the latest U.S. Census figures. In fiscal 2010, TDHCA committed $19.5 million in HHSP program funds and served 14,163 individuals.[79]

TDHCA's *Comprehensive Energy Assistance Program* (CEAP) funds programs that provide utility assistance to households with incomes at or below 125 percent of federal poverty guidelines. Some low-income households can qualify for grants to repair, replace or retrofit inefficient heating and cooling appliances through the CEAP. More than $188.8 million was committed in fiscal 2010 to serve nearly 193,700 households.[80]

To further assist lower-income persons in retaining their housing, TDHCA provides administrative funds through the *Community Services Block Grant* (CSBG) program to community action agencies (CAAs) that may be part of units of local government or stand-alone nonprofit entities. CAAs offer services that can be essential to preventing homelessness, such as child care, health and human services, job training, farm worker assistance, nutrition services and emergency assistance. In fiscal 2010, TDHCA committed more than $31.7 million in CSBG program funds to serve 332,247 individuals.[81] ARRA funneled an additional $48.1 million to Texas CSBG that had to be spent by Dec. 29, 2010. TDHCA spent 99.94 percent of the CSBG ARRA allocation, serving 77,131 Texans.[82]

Rental Assistance

TDHCA offers a wide range of rental assistance for low-income Texans, including rent payments and subsidized developments that offer reduced rent.

The *Section 8 Housing Choice Voucher Program* provides rental assistance payments on behalf of low-income households whose incomes do not exceed 50 percent of area median federal income guidelines (AMFI). The federal government requires that 75 percent of all new households admitted to the program be at or below 30 percent of the federal AMFI. Qualified households may select their residences through direct negotiations with landlords and TDHCA will pay approved rent subsidies directly to the property owners. In fiscal 2010, TDHCA committed $5.1 million for the program, serving 898 households.

TDHCA HOME new rental construction plans.

The *HOME Investment Partnerships Program* offers grants and loans to local governments, nonprofit agencies, for-profit entities and public housing agencies that provide safe, decent and affordable housing to low-income families. HOME has a 15 percent set-aside for community housing development organizations (CHDOs) and a 5 percent set-aside for people with disabilities. The program offers Tenant-Based Rental Assistance that subsidizes rent for low-income Texans, and Multifamily Rental Housing Development that assists affordable housing development. In fiscal 2010, TDHCA committed more than $2.54 million for HOME Tenant-Based Rental Assistance. Almost $16.45 million was committed for HOME new rental construction and more than $11.8 million allocated to HOME rental unit rehabilitation that will serve low-income households for 30 years. TDHCA served 768 households in fiscal 2010 with HOME rental assistance, multifamily construction and rehabilitation funds.

The *Housing Trust Fund* is a state-authorized program dedicated to increasing Texas' supply of affordable housing. The program's funds are legislatively authorized and competitively awarded by TDHCA for rental assistance, acquisition, rehabilitation and new construction of affordable rental housing or homeowner developments. Nonprofit organizations can apply for Affordable Housing Match Program matching funds to attract rental development funded by other state, federal or private resources. Additionally, the Rural Housing Expansion Program awards funds to applicants that add capacity or develop affordable rental housing in rural areas. In fiscal 2010, TDHCA committed $500,000 in multifamily rental construction to serve 36.

TDHCA's *Multifamily Mortgage Revenue Bond Program* issues mortgage revenue bonds to finance loans to qualified nonprofit organizations and for-profit developers that create low-income rental housing. Financed properties assist low-income households. Project developers may elect to set aside 20 percent of the units for households earning 50 percent or less of the AMFI, or 40 percent of the units for households earning 60 percent or less of the AMFI. In fiscal 2010, TDHCA committed almost $2.3 million for construction of rental units to serve 441 rental units.

The *Housing Tax Credit Program* provides a tax credit to developers of low-income rental housing that offsets a portion of their federal tax liability in exchange for building affordable rental housing. To qualify for the tax credit, at least 20 percent of a project's units must be rent-restricted and occupied by individuals whose income is 50 percent or less of the AMFI. Alternatively, 40 percent or more of the units must be rent-restricted and occupied by individuals whose income is 60 percent or less of the AMFI. TDHCA committed more than $47.1 million from the Housing Tax Credit Program in fiscal 2010 for new rental units to serve 4,061 households, and another $20.3 million for rehabilitation rental units to serve 1,990 households.[83]

Due to the economic downturn, the *Tax Credit Exchange Program*, a new federal program created by the ARRA, allows developments that received Housing Tax Credits in fiscal 2007, 2008, 2009 and 2010 to exchange their credits for a cash grant. TDHCA can exchange the returned credits with the Treasury at a rate of 85 cents for each dollar in credit returned. The HTC program can be used only for the construction or rehabilitation/reconstruction of rental properties affordable to households earning up to 60 percent of the AMFI. The total amount of national funding is estimated at $3 billion and TDHCA received $594,091,929.

Another ARRA program created under the HOME Investment Partnerships Program is the *Tax Credit Assistance Program (TCAP)*. This provides funds to offset the current devaluation of Housing Tax Credits by allowing TDHCA to award TCAP funds to HTC developments adversely affected by current HTC market conditions. Eligible recipients for this funding are 2007, 2008 and 2009 HTC awardees. The HTC Program can be used only for the construction or rehabilitation/reconstruction of housing units or the adaptive reuse of commercial properties to provide housing units affordable to households earning up to 60 percent of the AMFI. About $148 million was available for this program and property owners were required to expend awarded funds by Feb. 16, 2012.[84]

TDHCA works to ensure that potential homeowners understand the responsibilities involved by offering homeownership education courses and financial tools to help smooth the transition to homeownership.

Homebuyer Assistance

After a low-income household becomes self-sufficient, it may be ready for homeownership. TDHCA works to ensure that potential homeowners understand the responsibilities involved by offering homeownership education courses and financial tools to help smooth the transition to homeownership.

Adequate homebuyer counseling may reduce mortgage delinquency and foreclosure rates. To ensure that lenders, borrowers and policymakers understand the full scope of TDHCA lending programs, TDHCA created the *Texas Statewide Homebuyer Education Program (TSHEP)* in 1999. TSHEP provides homebuyer counseling through experienced education providers, nonprofit housing providers, low-income housing advocates, for-profit housing providers, lenders and realtors. As of October 2010, TDHCA has trained and certified 588 individuals.[85]

The *Single-Family Bond Program* raises funds through tax-exempt and taxable mortgage revenue bonds to finance the *First-Time Homebuyer Program*. The *program* offers 30-year, below-market, fixed-rate mortgages for households whose incomes do not exceed 115 percent of the AMFI and who qualify as first-time homebuyers. Eligible households must work with participating lenders to secure a loan. Thirty percent of First-Time Homebuyer funds are reserved for households earning 80 percent or less of the program income limits.

The *First-Time Homebuyer Program* includes a *Mortgage Credit Certificate (MCC)* tax credit program that reduces the federal income taxes, dollar for dollar, of buyers purchasing a residence. The annual tax credit can cover up to 35 percent of the annual interest paid on a mortgage loan, not exceeding $2,000. MCC tax credits in excess of a borrower's current year tax liability can be carried forward for up to three years. The *MCC* is available for households whose income does not exceed 115 percent of AMFI.[86] More than $219 million was committed for the *Texas Single-Family Bond Program* in fiscal 2010. This sum includes funds for the *First-Time Homebuyer Program* and the *MCC*, which together served 1,739 households.[87]

TDCHA created two programs in 2009 for Texas families to use the ARRA tax credit for first-time homebuyers. The 90-day Down Payment Assistance Program (DPAP) and Mortgage Advantage Program (MAP) both provided interest-free short-term loans to eligible families in anticipation of the receipt of the federal first-time homebuyer tax credit. Due to limited availability of funds and the limited time for which the credits were offered, applications were only accepted through Sept. 23, 2009.[88]

The *90-Day Down Payment Assistance Program* provided 5 percent of the first lien mortgage amount up to a maximum of $7,000 for a down payment and closing costs at no interest for 90 days. The *Mortgage Advantage Program* provided 5 percent of the first lien mortgage amount up to a maximum of $6,000 for down payment and closing costs when combined with the *Texas First Time Homebuyer* or *MCC* Programs. The *Mortgage Advantage Program* offers 0 percent interest on the second lien for 120 days. A total of 756 households received DPAP and 98 households received MAP. A total of $4,043,738 was loaned as a result of DPAP and a total of $531,445 was loaned as a result of MAP.[89]

Affordable housing available through TDHCA programs.

To assist low-income households with down payments and closing costs, *HOME* allocates funds through the *Homebuyer Assistance Program*. Funds also may be available to perform accessibility modifications to newly purchased homes, and to address housing issues arising from state- or federally declared disasters. TDHCA committed more than $5.6 million for these programs in fiscal 2010, committing to serve 225 households.[90]

TDHCA's *Contract for Deed (CFD) Conversion Initiative, administered through the HOME Program,* helps residents of *colonias* become property owners by converting their CFDs into traditional mortgages. In fiscal 2010 and 2011, $2 million was reserved for CFD conversions and more than $796,100 was spent to convert 18 CFDs during the biennium.[91]

The Bootstrap *Loan Program* is a statewide loan program offered through Colonia Self-Help Centers and nonprofit organizations that have been certified as a Nonprofit Owner-Builder Housing Provider (NOHP), to allow owner-builders to buy real estate to build or renovate a home. Two-thirds of these funds must be committed in economically distressed areas, as defined by the Texas Water Development Board, which have also adopted the model subdivision rules. Participating owner-builders must provide a minimum of 65 percent of the labor required to build or rehabilitate the home. Total loans from TDHCA cannot exceed $45,000 per household. The Bootstrap program is funded through the Housing Trust Fund. The program recently transitioned to a Loan Reservation System, which allows Colonia Self-Help Centers and certified nonprofit organizations to reserve funds for an owner-builder applicant to participate in the 2010-2011 Texas Bootstrap Loan Program. More than $3.6 million was expended in fiscal 2010, serving 116 households. An additional $1.2 million in commitments was made through the reservation system.[92]

Weatherization and Rehabilitation Assistance

Low-income homeowners may need weatherization services to help them control energy costs and keep their homes affordable. Also, over the life of homeownership, homeowners may need more substantial rehabilitation or reconstruction. TDHCA funds a network of organizations that provide weatherization and rehabilitation for low-income homeowners.

TDHCA's *Weatherization Assistance Program (WAP)* helps households control their energy costs by installing storm windows, attic and wall insulation and weather-stripping and sealing and teaching energy conservation. Households with elderly or disabled members or young children receive priority, as do households with the highest energy costs relative to income and households with high energy consumption. Improvements typically include reducing air infiltration by replacing doors and windows, caulking and repairing holes, installing ceiling, wall and floor insulation, replacing energy-inefficient appliances and heating and cooling units and providing energy education to help families reduce their energy consumption. TDHCA committed more than $37.3 million and served 8,971 households in fiscal 2010.[93] Through ARRA, TDHCA received more than $326.9 million in additional WAP funding to spend by March 2012. By October 2010, 17,904 households received ARRA WAP assistance. [94]

The *HOME Investment Partnerships Program* also allocates funds through the *Housing Rehabilitation Assistance Program* to rehabilitate or reconstruct low-income homeowners' existing residences. More than $18 million was committed in fiscal 2010 for rehabilitation services to 225 households.

The *Housing Trust Fund* also provides funds for the rehabilitation of single-family homes, primarily through the Amy Young Barrier Removal Program. These grant funds allow for reasonable accommodation or modification for rental tenants, homeowners or household members with disabilities who need assistance to fully use their homes. The program provides onetime grants for up to $15,000 in home modifications for accessibility, and up to an additional $5,000 in other rehabilitation costs correlated with the barrier removal project. TDHCA committed $2.1 million to single-family home rehabilitation activities in fiscal 2010 to serve 162 households.[95]

Through ARRA, TDHCA received more than $326.9 million in additional WAP funding to spend by March 2012.

Foreclosure Relief

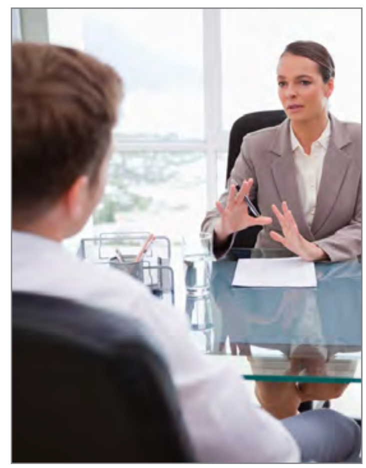
With the recent mortgage crisis, many low-income homeowners are threatened with foreclosure. Additionally, with the rise in abandoned and foreclosed properties, many neighborhood communities are at risk of declining property values. While Texas' foreclosure inventory has been lower than the national level since 2007, foreclosures and mortgage loan delinquencies remain above average. According to the Mortgage Bankers Association's National Delinquency Survey, just under 9.1 percent of all residential mortgage loans in Texas had delinquent payments as of the fourth quarter of 2011, compared to a national average of almost 7.6 percent. However, Texas had less than 1.8 percent of loans in foreclosure at the end of the fourth quarter compared to the national average rate of almost 4.4 percent.[96] The Federal Reserve Bank of Dallas noted that "Texas borrowers who missed one or two mortgage payments were often able to catch up later to avoid foreclosure." Hotspots of sustained delinquencies remain around the state, mostly in the four-county Dallas and Fort Worth areas and in Cameron and Hidalgo County in the Rio Grande Valley.[97]

To address these needs, TDHCA offers two assistance programs: the National Foreclosure Mitigation Counseling (NFMC) Program and the Neighborhood Stabilization Program (NSP).

The National Foreclosure Mitigation Counseling (NFMC) Program was authorized by the Fiscal 2008 Consolidated Appropriations Act and continued by the Housing and Economic Recovery Act (HERA) and other appropriations acts. From December 2008 to December 2010, TDHCA was awarded $491,490 for NFMC Round 2, $449,960 for NFMC Round 3 and $58,293 for NFMC Round 4. In December 2010, TDHCA partnered with 13 interested HUD-approved housing counselors and submitted an application to NeighborWorks America for NFMC Round 5 funding. Successful applicants for NFMC Round 5 will be awarded funds to reimburse the cost of counseling sessions performed between Oct. 1, 2010 and Dec. 31, 2010.

NFMC funds are federal funds available for foreclosure intervention counseling, training and administration expenses. The purpose of the program is to expand and supplement foreclosure counseling. All funds are targeted to "areas of greatest need," defined as areas experiencing a high rate of subprime lending, delinquent loans and foreclosure starts. NFMC Rounds 2, 3 and 4 provided counseling to 2,813 households and only 61 of those households went through foreclosure. The foreclosure rate of households that received counseling is approximately 2 percent, about the same as the statewide average foreclosure rate, even though these borrowers were already in financial distress and at risk of imminent foreclosure when they sought help from the NFMC program.[98]

The Neighborhood Stabilization Program (NSP) was authorized by HERA. Its purpose is to redevelop into affordable housing or acquire and hold abandoned and foreclosed properties in areas documented to have the greatest potential for declining property values as a result of excessive foreclosures. TDHCA received $102 million in funds from HUD for NSP1. On July 21, 2010, NSP3 was created by the Dodd-Frank Wall Street Reform Act. TDHCA received $7.3 million in NSP3 funds in fiscal 2010 to be distributed statewide.[99] Awards were made to local units of government and nonprofit entities based on an allocation formula that considered local needs and the redevelopment of abandoned, foreclosed and vacant properties to reduce the negative impact of the housing crisis on Texas communities. A minimum of 25 percent of the NSP funds must be used to provide housing opportunities to very low-income households at or below 50 percent AMFI. The official NSP3 Grant Agreement between HUD and TDHCA was signed and executed on March 7, 2011. NSP3 funds have been awarded to two multifamily development projects and TDHCA staff continues working through the underwriting process prior to contract execution. HUD deadlines in the NSP3 Grant Agreement require 50 percent of NSP3 funds to be spent by March 7, 2013 and all NSP3 funds to be spent by March 7, 2014.[100]



Foreclosure counseling session.

Disaster Recovery and Relief

Low-income homeowners and renters often are the most severely affected and the last to recover when natural disasters strike. TDHCA offers disaster recovery programs to address the essential needs of persons displaced by natural disasters and speed community recovery.

In 2005, a large number of evacuees from Louisiana escaped to Texas during Hurricane Katrina; shortly afterward, more than 75,000 homes in Southeast Texas were severely damaged by Hurricane Rita. TDHCA is the lead agency in a partnership for Hurricane Katrina and Rita disaster recovery, with Texas Department of Rural Affairs (TDRA), the City of Houston, Harris County and the Southeast Texas Regional Planning Commission. TDHCA's Disaster Recovery Division works within this partnership to administer two federal community development block grants. Texas received $74.5 million under Public Law 109-148 in May 2006 (Rita Round 1), of which approximately $40.75 million was dedicated to housing activities to help the residents of southeast Texas recover. An additional $428 million was committed under Public Law 109-234 (Rita Round 2) for recovery efforts in Southeast Texas.[101]

All construction activities awarded Rita Round 1 funding were complete by October 2010. About $38.7 million (95 percent of total funds) were spent. Remaining funds will be drawn down to reimburse costs associated with completed construction. An estimated $345.6 million (81 percent of total funds) in Rita Round 2 funding has been spent, including more than $82 million in a state-administered affordable rental program to replace or rehabilitate seven rental developments in the affected areas.[102]

In 2008, Hurricanes Dolly, Gustav and Ike affected eastern Texas in a 52-day period. To assist the recovery efforts, HUD provided $1.3 billion to Texas in CDBG funds for public infrastructure, economic development and housing under Public Law 110-329 (Ike Round 1). The Office of the Governor designated TDRA the lead agency for Hurricane Ike and Dolly funding. TDHCA is partnered with TDRA for disaster recovery and will administer the housing portion of the funding. Under the Ike Round 1 housing program, 18 subrecipients administer the CDBG disaster recovery funds. Housing programs offered by these subrecipients include assistance for homeowners with damaged or destroyed homes, down payment assistance, repair or replacement assistance for rental housing and other activities designed to address disaster-related needs. TDHCA awarded $621,448,377 for housing activities related in the hurricane impacted areas with reported housing damage; $562,613,464 was awarded to 18 subrecipients and $59,926,832 for rental set-asides.

Texas received a second allocation for Hurricane Ike recovery in spring 2009 for $1.7 billion, with approximately $1 billion to be used for housing-specific activities. Effective July 1, 2011, the federal allocation of Community Development Block Grant (CDBG) Disaster Recovery Funding, related hurricanes Ike and Dolly, was transferred to GLO from TDHCA. The allocation was split between two phases, Round 2.1 and Round 2.2. TDHCA anticipates that it will award $805 million to its subrecipients and directly oversee more than $174 million in affordable rental housing assistance. As with Ike Round 1, households affected by Hurricane Ike may apply to the subrecipient rather than TDHCA.[103] Fund allocation specifics can be found in *The State of Texas Plan for Disaster Recovery, Action Plan Amendments* on the GLO website.

Because the Housing Trust Fund is not restricted by federal guidelines, it can be used for disaster recovery.

Many homeowners look to TDHCA for recovery aid when they have no other means of assistance or when they need gap financing after receiving federal assistance. TDHCA may use deobligated HOME funds for disaster relief awards through the Homeowner Rehabilitation Assistance, Homebuyer Assistance and Tenant-Based Rental Assistance programs in communities that do not receive HOME funds directly from the federal government. HOME disaster funds are designed to assist eligible homeowners who are affected by a disaster, especially those with no other means or assistance, or as gap financing after any federal assistance. Assisted homeowners must have an income that is below 80 percent of AMFI. About $1.56 million in HOME's Homeowner Rehabilitation Assistance funds were used for disaster recovery in fiscal 2010.[104]

Because the Housing Trust Fund is not restricted by federal guidelines, it can be used for disaster recovery. TDHCA allocated $1 million from the Housing Trust Fund in 2010 and 2011 for a *Disaster Recovery Gap Assistance Program* to aid homeowners who lacked only a small portion of the funds they needed to meet the full cost of construction and repairs.[105]

In February 2010, to reinforce hurricane recovery efforts, TDHCA released approximately $6 million through the 2010 Mortgage Credit Certificate Program for use within targeted areas including the 22 East Texas counties designated under the Gulf Opportunity Zone Act of 2005 (Rita GO Zone). In May 2010, TDHCA released approximately $100 million through the Texas First Time Homebuyer Program for home loans to qualified homebuyers wishing to purchase a home in a targeted area, including the Rita GO Zone. Funding designated to the Rita GO Zone expired Dec. 31, 2010.[106]

TDHCA Housing Programs, Fiscal 2010*

Program	Amount Expended or Committed in Fiscal 2010
Emergency Shelter Grant Program	$5.0 million
Comprehensive Energy Assistance Program	$188.8 million
Community Service Block Grant Program	$31.7 million
Homeless Housing and Services Program	$19.5 million
Section 8 Housing Choice Voucher Program	$5.1 million
HOME Investment Partnerships Program (all activities)	$54.5 million
Multifamily Mortgage Revenue Bond Program (all activities)	$2.6 million
Housing Tax Credit Program (all activities)	$67.4 million
Single-Family Bond (all activities)	$219.1 million
Housing Trust Fund (all activities)	$6.7 million
Texas Bootstrap Loan Program	$3.6 million
Weatherization Assistance Program	$37.3 million

**Does not include disaster-related funds.*

TDHCA Stimulus Programs

Program	Total Funding
Community Services Block Grant Program ARRA	$48.15 million
Homebuyer Tax Credit Programs: • 90-Day Down Payment Assistance Program (DPAP) • Mortgage Advantage Program (MAP)	DPAP: $4.04 million MAP: $531,445
Homelessness Prevention and Rapid Re-Housing Program	$41.47 million
Housing Tax Credit Recovery Act Programs : • Housing Tax Credit Exchange Program (HTC Exchange) • Tax Credit Assistance Program (TCAP)	HTC Exchange: $594.1 million TCAP: $148.35 million
National Foreclosure Mitigation Counseling Program (NFMC): • NFMC Round 2 • NFMC Round 3 • NFMC Round 4 • NFMC Round 5	NFMC Round 2: $491,490 NFMC Round 3: $449,960 NFMC Round 4: $58,293 NFMC Round 5: Application submitted
Neighborhood Stabilization Program (NSP): • NSP 1 • NSP 3	NSP 1: $101.99 million NSP 3: $7.28 million
Weatherization Assistance Program ARRA	$326.97 million
Total	$1.27 billion

Disaster recovery construction through TDHCA Housing Trust Fund assistance.

TDHCA Disaster Programs

Program	Total Funding
Community Development Block Grant–Disaster Recovery Rita Round 1	$74.5 million $40.89 million for housing activities
Community Development Block Grant–Disaster Recovery Rita Round 2	$428.6 million $366.65 million for housing activities
Community Development Block Grant–Disaster Recovery Ike/Dolly Round 1	$1.31 billion $621.45 million for housing activities
Community Development Block Grant–Disaster Recovery Ike/Dolly Round 2	$1.74 billion $979.2 million for housing activities

Insurance

The Texas Department of Insurance regulates the Texas insurance market, which includes more than 1,900 insurance companies, health maintenance organizations and other insurance risk-bearing carriers. TDI's functions include regulating the financial solvency of insurance companies, regulating policies and rates and providing consumer protection services.

TDI's biennial report for 2010 identified $57 billion in Texas investments made by these insurers.

TDI prepares a biennial report on investments made in Texas by life and health insurance companies with $10 million or more in Texas premiums. A total of 246 companies met these criteria and accounted for about 98 percent of the total life and annuity premiums collected in Texas in calendar 2009.

TDI's biennial report for 2010 identified $57 billion in Texas investments made by these insurers. Ninety-three percent of their reported investments were in commercial and farm mortgages, political subdivision/public utility bonds and corporate bonds. The largest amounts by category were commercial and farm mortgages ($23.7 billion), political subdivision/public utility bonds ($13.6 billion) and corporate bonds ($12.9 billion).

These amounts, however, are not comprehensive, since many of the reporting companies cannot link their investments to an individual state. This is also the case with pooled investments.

Insurance company residential mortgage investments are frequently made through pooled investments; comprehensive data are not available for this category. Due to the difficulty involved in linking some corporate bond investments to specific states, reporting for that category is optional. Furthermore, Texas investments made by property and casualty insurance companies are not included in the above amounts because they are not subject to the statute requiring these reports. Additional information about these investments can be found in the *December 2010 Community Investment Report* available on the TDI website at www.tdi.state.tx.us.

TDI attempts to ensure that property insurance remains available and affordable in the state since it is a key to homeownership for millions of Texans. Homeowner's insurance is required on properties that carry liens, so a shortage of available insurance can directly affect a person's ability to purchase a property.

These concerns led to the implementation of the state's Fair Access to Insurance Requirements (FAIR) Plan. The Texas FAIR Plan Association (TFPA) is an entity established by Texas Insurance Code §2211 to provide residential property insurance to qualified Texas citizens who are unable to obtain coverage from licensed insurance companies. This alternative market is a residual market of last resort and is not intended to compete with the standard property insurance market.

Consumers who have been declined residential property insurance by at least two insurance companies in Texas may apply for coverage. Limited coverage is available for one- and two-family dwellings, townhouse units and condominium units that are owner-occupied, as well as for rental dwellings (one- and two-family) and their contents, and the personal property of tenants living in rental dwellings or apartments. The FAIR Plan's current insured liability is more than $12 billion, most of it in Tier 2 coastal communities. The FAIR plan generated $60.2 million in Texas premiums in 2009.

Another residual market, the Texas Windstorm Insurance Association (TWIA), provides wind and hail coverage in the 14 Texas Tier 1 coastal counties and certain portions of Harris County that have been designated as a catastrophe area. A number of regular insurance companies have ceased writing wind and hail risks in these coastal areas due to concerns about hurricanes. TWIA provided about $67.6 billion in coverage as of Sept. 30, 2010. TWIA generated $382.3 million in Texas premiums in 2009.

TWIA's financial reserves continued to suffer into 2011 from an estimated $2.3 billion in claims from Hurricane Ike, which hit the Texas coast in 2008. The 2011 legislature compromised upon changes to the troubled TWIA under HB 3 which allows TWIA to build up "post-event" bonding to help the association handle claims from the next destructive weather event. HB 3 includes operations, solvency and transparency provisions and measures. The bill requires the TWIA to annually file a statement with the Texas Department of Insurance and the State Auditor's Office that summarizes the association's transactions, conditions, operations and affairs during the prior year.[107] HB 3 clarifies that bonds are issued only once per calendar year; that claims must be filed within one year of an event; and establishes an interim task force to examine TWIA operations and report to the 2013 Legislature.[108]

Certified Capital Company State Economic Development (CAPCO)

The Comptroller's office and the Texas Treasury Safekeeping Trust Company administer the $400 million Texas Certified Capital Company (CAPCO) program. The CAPCO Program I and Program II goals have been to provide alternative sources of venture capital to Texas entrepreneurs. Unlike typical venture capital funds, the rules governing the types of businesses and the structures of CAPCO investments are targeted and restricted. The statute for the CAPCO program may be found in the Texas Insurance Code §228.001-353. CAPCOs are government-sponsored, private venture capital companies.

The CAPCO program supports economic development for Texas.

Funded by insurance premium tax credits, the CAPCO program supports economic development and generates tax revenues for the state by encouraging business growth and job creation. During 2005, 10 Texas CAPCOs were certified by the CAPCO Program administrators to raise $200 million through the issuance of certified capital tax notes or "qualified debt instruments" to insurance companies. In 2007, a second round of premium tax credits was authorized and nine CAPCOs were certified to raise $200 million (Program II).

Insurance companies that invest in a CAPCO may claim their investments, dollar for dollar, as a reduction or credit against taxes they owe on the premiums they collect from businesses and individuals. In return for their investments in Program I and Program II, more than 100 participating insurance companies will receive premium tax credits equal to 100 percent of the amount of their investments.

A unique feature of Texas' CAPCO statute is the deferral of these premium tax credits. Initially issued in 2005, the credits could not be used until the filing of 2008 premium tax returns due March 1, 2009. Also, the tax credits may not all be used in a single year. The law requires the credits to be taken at an annual rate no greater than 25 percent of the initial certified capital invested; no more than $50 million in credits may be used in any one year by all investors. Therefore, the total $400 million in tax credits may be used by Texas insurance investors at the rate of $50 million per year for tax years 2008-2015. Any unused credits may be carried forward indefinitely.

Once the CAPCO managers have access to investor cash, Texas law requires they start to deploy the money by investing in qualified Texas businesses. By law, the CAPCO must invest 30 percent of its certified capital within three years of funding and 50 percent by the end of the fifth year of funding. An additional requirement is that a CAPCO must invest 25 percent of its certified capital in operations defined as early-stage businesses and 15 percent in businesses with principal business operations in strategic investment areas or low-income communities.

By law, the CAPCO must invest 30 percent of its certified capital within three years of funding and 50 percent by the end of the fifth year of funding.

CAPCOs may ask the Comptroller's office to determine whether their investments are considered qualified business investments under the program rules by submitting a "Request for Determination as a Qualified Business" and providing the information it has gathered on the business, including its plan of operations and plans for future expansion. The request may be denied if the Comptroller's office determines that the proposed investment is not consistent with the CAPCO's investment strategy or investment criteria as approved by the Comptroller at certification.

On January 31 of each year, CAPCOs must pay a nonrefundable renewal fee of $5,000 and submit a report to the Comptroller's office detailing the amount of qualified investments made during the preceding year, the number of jobs retained and created during the preceding year; the industrial sector, size and location of each active business investment; and any other information the Comptroller's office may require. The Comptroller's office then conducts a review of each CAPCO to ensure it complies with program requirements. By Dec. 15 of each even-numbered year, the Comptroller's office publishes a report on CAPCO-related job creation and program data to the governor, lieutenant governor and speaker of the Texas House of Representatives. For more detail, download the 2010 report from the Texas Comptroller's website at www.window.state.tx.us.

Community Development Corporations in Texas

Financial institutions comply with CRA requirements by making loans to low- and moderate-income borrowers for homes, home-improvement projects and small-business ventures. Banks and savings and loans receive favorable credit toward CRA examination ratings by extending loans to and making investments in community development corporations.

CDCs provide affordable housing loans for low-income borrowers, manage loan funds for housing development and help residents plan and track new investments in safe, sanitary and affordable housing and home reconstruction to meet local building codes in low-income rural areas. They also find and evaluate home financing and deliver financial literacy education, tenant counseling, senior citizen programs and community organizing activities to Texas communities in need.

Couple receiving tenant counseling.

Community Reinvestment Issues and Initiatives

The Financial Crisis and Financial Literacy in Texas: Survey Results, Legislation, Private and Public-Sector Outreach

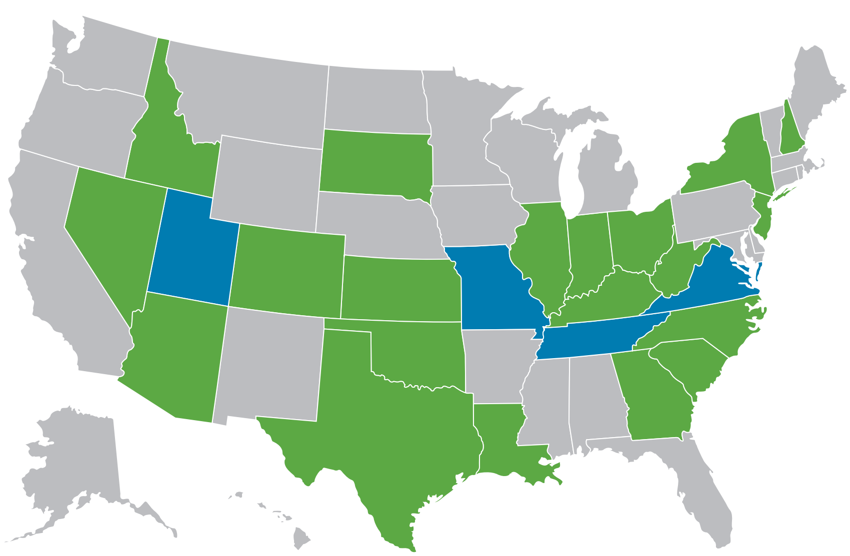
Financial literacy education has been a relatively low public policy priority in Texas, despite efforts by banks, Junior Achievement programs and some privately funded activities. Many Texas students leave public education and enter the workforce, purchase cars or homes and make investment decisions with little financial knowledge to guide their decisions.

Since the 2009 update, however, a number of public and private partnerships surfaced between financial literacy-focused associations, banks, literacy education nonprofits and state agencies designed to deliver personal financial literacy education to Texas consumers. This section describes financial education events held in 2011 and scheduled in 2012 across the state, research survey results and creative digital tools targeted at growing the personal financial management skills of Texans.

Examples of such partnerships include:

- Personal Financial Literacy Challenge ONLINE! Provides high school and middle school students, including teachers, a web-based financial education competition with cash prizes supported through funds from Opportunity Texas, the Council for Economic Education, the Texas Credit Union Foundation and other organizations.

State Financial Education Requirements



Source: www.jumpstart.org/.

- Platt's in Houston, Texas, in partnership with McGraw-Hill and the Mayor's Coalition for Literacy, provides employees who volunteer leading and teaching classes for and reading to pre-schoolers in an initiative to help the Houston READ Commission exceed literacy goals set by the state.

According to a report distributed by the Employee Benefit Research Institute (2011) based on three linked surveys, Texas ranks 44th among states in financial behavior and 39th in financial literacy. Financial literacy survey data confirms that Texans rarely check their credit reports and fail to comprehend investment fundamentals. Financial behavior survey results indicate Texans fail to save adequately for retirement or poor economic times. Other states in this bottom group include Arkansas, Indiana, Kentucky, Louisiana, Mississippi, Ohio, Tennessee and West Virginia. The rankings came from a new National Financial Capability Study designed by the Financial Industry Regulatory Authority Investor Education Foundation.

To compare financial education requirements across states, visit the Jump$tart Coalition's U.S. map of State Financial Education Requirements.

Financial Education in Schools

The 2011 Texas Legislature passed legislation supporting personal financial literacy (PFL) instruction in public schools. First, the Legislature passed HB 34 requiring instruction in methods of paying for college and other postsecondary education and training in high school economics courses. Another bill, SB 290, requires personal financial literacy instruction to be included in the K-8 mathematics.

According to a report distributed by the Employee Benefit Research Institute (2011) based on three linked surveys, Texas ranks 44th among states in financial behavior and 39th in financial literacy.

The State Board of Education voted unanimously to include the Proposed PFL TEKS as amendments in the revised curriculum standards for mathematics for each K-8 grade level. A draft of the Mathematics TEKS and the PFL amendments are posted on the Texas Education Agency (TEA) website. TEA accepted comments on the draft Mathematics TEKS and its amendments in spring 2012.[109]

The 2011 Texas Legislature also enacted bills that require:

- the Texas Higher Education Coordinating Board to require general academic teaching institutions to offer training in personal financial literacy;
- the Office of Consumer Credit Commissioner to collect information on programs and other publicly available resources that focus on teaching financial literacy; compile and periodically update the information into a one-page document; and post it on the Office of Consumer Credit Commission's website by Dec. 1, 2011; and
- created the Texas Financial Education Endowment to support statewide financial education and consumer credit building activities and programs.

Financial Education in the Workplace

The Texas Department of Banking provided online financial education to almost 900 participants in 2010 and 2011. Financial education webinar topics included "In School Banking," "Financial Education in the Workplace," "Bank On" programs, "Financial Education and the Housing Community" and the "Texas Saves Campaign." Webinar participants included financial institutions, government, nonprofit organizations and the general public.[110]

The following table reflects the variety of financial literacy education offered by businesses, state and local government agencies in Texas. Click on links to view online schedules, find financial education materials, identify theft prevention tips, read new laws and take adult, youth or child-focused financial quizzes.

Agency/Organization	Course	Audience
Texas Department of Banking www.dob.texas.gov	2010/2011 Financial Education Webinars	Bankers, Nonprofit and Government Leaders
American Bankers Association (ABA) Education Foundation www.aba.com/abaef/	"Teach Children to Save," "Get Smart About Credit"	Adults
Consumer Credit Counseling Services (CCCS) of Greater Dallas www.cccs.net/education/index.asp	Classes & Webinars	Consumers and Educators
Federal Deposit Insurance Corporation (FDIC) www.fdic.gov/consumers/consumer/moneysmart/index.html	"Money Smart for Adults," Money Smart for Young Adults"	Young Adults
Federal Reserve Bank of Dallas www.dallasfed.org/	"Building Wealth"	Consumer
Financial Fitness Greater Austin (FFGA) www.financialfitnessaustin.org/	Ongoing public personal finance education "Financial Fitness Week"	Greater Austin Community Consumers
Junior Achievement www.ja.org/	"K-12 Programs"	K-12 Students
Houston Money Week www.houstonmoneyweek.org	General financial awareness	Consumers
Texas Education Agency www.tea.state.tx.us	Financial Education in Schools	Educators and Students
Synergy Federal Credit Union SFCU (San Antonio, Houston, Port Arthur & Texas City) www.synergyfcu.org/synergy-fcu-education	Financial Education	Consumers
Balance Track www.balancetrack.org/partners/nihfcu/	"Balance Track" personal finance education program courtesy of a partnership between SFCU and BALANCE. Online education modules guide users through core aspects of personal financial management	Consumers
A+Federal Credit Union https://aplusfcu.org/education/teachers-lounge/financial-education-curriculum http://aplusfcu.practicalmoneyskills.com/games/trainingcamp/	Webinars and Online Financial Education Games	Consumers
Texas Credit Union Foundation Partnership with Consumer Credit Counseling Services & Texas Credit Union League www.tcuf.coop/Financial_Education.html	"Your Money, Your Matters"	Consumers

Financial Education Curricula

Texas credit unions encourage consumers to develop sound financial management skills from an early age, and some even incorporate financial planning into classrooms. User-friendly financial education programs introduce children of all ages with financial planning concepts applicable to everyday life. Financial literacy programs are available in Texas for every life stage from 4th-8th grade, middle school, high school, college and others.

Volunteer leading a financial literacy class.

Beyond secondary education, the National Endowment for Financial Education's (NEFE) CashCourse provides students with basic financial information covering budgeting, financial planning, banking money, credit card management, protecting credit, preventing identify theft, mixing money and family, overspending, avoiding fast financial "fixes," setting financial goals and saving money. Many Texas colleges offer CashCourse topics including paying for college and retirement, understanding financial aid and repaying student loans, financing graduate school through scholarships, living at college in the digital age, buying or leasing a car, studying abroad, handling peer pressure, understanding parental situations, paying for fraternities and sororities.

The following Texas colleges offer CashCourse:

- Baylor University
- Houston Community College
- Sam Houston State University
- Texas A&M University
- Texas State University – San Marcos
- Texas Tech University
- The University of Texas at Austin
- The University of Texas at San Antonio
- The University of Houston – Downtown

Surveys

Since the 2009 update, The Texas Department of Banking, the Texas Bankers Foundation and the Independent Bankers Association of Texas (IBAT) Education Foundation co-sponsored a five-year project and issued a 2010 final report, *How Bankers Provide Financial Education in Texas: A Collaborative Study of Banks in Texas.* The study surveyed 600 banks with Texas locations in 2010. A total of 104 responded.

Financial literacy was not a part of at least 76 percent of responding surveyed banks and another 41 percent do not have a financial education initiatives budget.

Most responding banks were state-chartered community banks (73.8 percent) with between two and 10 branch locations. Survey results showed 65 percent of the responding banks currently have an active financial education outreach program in their communities. About 24 percent of respondents in 2010 expressed interest in offering a financial education program and only 12 percent declared no interest. Of responding rural banks, about half offered financial education. About 54 percent of the largest banks offer financial education, compared to 46 percent of the smallest banks. The study suggests that small and mid-size banks may have the greatest need for assistance in implementing a financial education program.

According to the study, 80 percent of responding bank financial education programs target high school students, followed by elementary and middle school students, adults and the unbanked. The study asserted a possible link between this emphasis and Texas legislative requirements that high schools provide financial literacy education. The elementary and middle school priorities reflected in the study indicated an effort to enforce positive financial behaviors at a younger age. The low number of programs targeting senior citizens — a growing demographic in Texas — may be an untapped opportunity for banks.

Of the responding banks, 19 percent planned to budget for additional financial literacy efforts; and 52 percent planned to budget the same amount as before. Conclusions drawn from the 2010 survey study include:

- Few banks budget funds for financial education reflecting an opportunity for increased collaboration among banks and other financial literacy education providers.
- Given a list of education curricula, banks mostly mentioned four programs, Money Smart (FDIC) and Money Smart for Young Adults (FDIC); Teach Children to Save (American Bankers Association); Junior Achievement; and Building Wealth (Federal Reserve Bank of Dallas).
- A large majority of banks assign a single staff person to promote financial literacy initiatives.
- Financial literacy was not a part of at least 76 percent of responding surveyed banks and another 41 percent do not have a financial education initiatives budget.

- About 32 percent of banks use local career fairs to offer financial education while another 22 percent used financial fairs.[111]
- Little evidence exists of active education programs in place at the responding banks.

Payday, "Predatory" and Subprime Lending

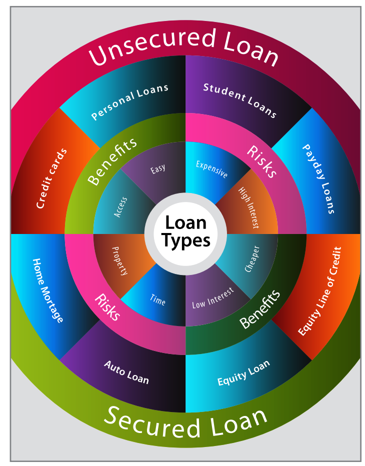
The economic crisis has revealed a number of weaknesses in the U.S. financial system and brought into tighter focus the impact that payday, "predatory" and subprime lending practices have on the finances of low-income borrowers.

Traditional "prime" home loans from banks, generally made to borrowers with high credit scores, often offer competitive low-interest rates with a minimum of additional charges and loan fees. Other loans carry higher interest rates and fees and usually are made to households that have relatively poor credit scores or lack credit histories altogether.

Subprime home loan and mortgage rates generally are at least three or four points higher than home loans made in the prime market. The Federal Reserve Board has found that more than half of subprime mortgages have adjustable rates, with an initial period of two to three years of fixed payments followed by variable payments.

Predatory lending refers to loans with excessive fees, hidden loan terms and very high interest rates, as well as little if any verification of the borrower's ability to repay. Most predatory lenders locate in low-income or disadvantaged communities, close to customers that lack good credit and have few assets and unreliable or very low incomes.

Payday lending refers to the practice of making short-term "payday" loans, generally small cash advances based on a personal check held for future deposit. These are often provided by check-cashing outlets, pawnshops, stand-alone companies and online or telephone loan providers. Many payday loans only require disclosure of income from a job or government benefits and a driver's license. Promoted as a way to relieve interruptions in cash flow, payday loans can carry interest rates as high as 400 percent annually.[112] In 2010, Texas had more than 3,500 payday lending stores.[113]



Payday and other unsecured and secured loan types.

As of 2011, 38 states had statutes allowing payday lending; another eight did not have legal provisions concerning payday lending or requiring lenders to comply with consumer loan interest rate caps. These eight included Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Vermont and West Virginia. Arkansas had repealed a pre-existing statute while Arizona and North Carolina allowed pre-existing payday lending statutes to sunset.[114]

The Pew Safe Small-Dollar Loans Research Project recently analyzed 33,600 survey interviews regarding online, storefront and other payday borrowing. The research placed states into one of three categories of payday lending regulation:

- 14 *restrictive* states, which either do not permit payday lending or have price caps low enough to eliminate payday lending in the state;
- 8 *hybrid* states, which have at least one of three forms of regulation — rate caps, restrictions on the number of loans per borrower or laws giving borrowers multiple pay periods to repay payday loans; and
- 28 *permissive* states, including Texas, which are the least regulated, permitting initial fees of 15 percent of borrowed principal or higher. Most permissive states have some payday lending restrictions while still allowing payday loans to become due in full on a borrower's next payday, with APRs ranging from 391 to 521 percent. About 55 percent of all Americans live in permissive states.[115]

In the 2011 session of the Texas Legislature, House Bill 410[116] would have closed a 14-year loophole that allowed payday lenders to charge high interest rates to delinquent borrowers; the bill did not pass. HB 2592, which was approved, provides disclosure and notice requirements for a "credit access business" (CAB), and requires them to post certain disclaimers in their physical locations and on their websites, including a fee schedule for service charges, notices about the intended use of payday and auto title loans and refinance charges and contact information for the Office of Consumer Credit Commissioner.

Subprime Lending and the CRA

A 2011 FRB study considered whether the Community Reinvestment Act played a significant role in the subprime mortgage loan crisis, concluding that the CRA was not a contributing factor. The study found that areas disproportionately served by CRA-covered lenders had lower delinquency rates and less risky lending, and threshold tests showed no evidence that the CRA had a negative effect on outcomes.[117]

Previous FRB research in 2008, based on mortgage purchase data, also concluded that the CRA was not a contributing element. The FRB noted that mortgage payment delinquency rates were high across all neighborhoods, regardless of income. While low-income households presented the highest 90-day delinquency rates, those homeowners represented merely one-fifth of delinquent mortgage totals.

While low-income households presented the highest 90-day delinquency rates, those homeowners represented merely one-fifth of delinquent mortgage totals.

The FRB argued that the "originate-to-distribute" subprime loan model provided independent and unregulated lending operations and mortgage brokers with a sizeable window of opportunity to quickly make large profits. Mortgage brokers and subprime mortgage loan originators, operating without federal or state regulatory oversight, used the originate-to-distribute model to sell loans to secondary markets rapidly, with the intention of making fast profits from closing fees and commissions on a large quantity of loans. The fact that loans were originated with the intention of quick sell-off to the secondary markets made it less important to evaluate their high risk of nonpayment and failure potential.

Further supporting its conclusion, the FRB's analysis compared loans made by banks in CRA-assessment areas in 15 of the largest U.S. metro areas with loans made by other lenders in each market. Banks were found to make fewer high-cost loans to low- and moderate-income borrowers than other lenders. Also, banks in CRA assessment areas were twice as likely as other lenders to keep the loans they originated.[118]

Agency Strategies to Promote Community Reinvestment in Texas

Each agency represented in the Community Reinvestment Work Group submitted its strategies for promoting community reinvestment in Texas in 2010 and 2011. These strategies do not necessarily reflect the views of all members of the Community Reinvestment Work Group.

Banking Strategies

The Corporation for Enterprise Development's *2009-2010 Asset & Opportunity Scorecard for Texas* provides a comprehensive look at wealth, poverty and the financial security of families. The following statistics for Texas illustrate the financial education need in Texas communities. (The ranking includes the District of Columbia; 1 is the most desirable and 51 the least desirable.)

- 51st in the lack of health insurance;
- 51st in high school graduation;
- 48th in household net worth; one out of five has zero or negative net worth;
- 48th in retirement plan participation;
- 44th in homeownership rate;
- 42nd in high-cost mortgage loans;
- 41st in households without a banking relationship/unbanked; and
- 41st in lowest-wage jobs.

Texas Department of Banking

The Texas Department of Banking supports financial institutions participating in government-sponsored programs to spur community reinvestment. To encourage state-chartered banks to provide financial education programs and services in Texas schools, the DOB approved the creation of Centers of Monetary Education for Texans (COMETs), through a 2008 amendment to the Texas Administrative Code. The new rule, 7 TAC §15.44, *Establishment and Operation of a COMET,* allows financial institutions to provide financial education in the community. To take full advantage of this opportunity, a financial institution must give the DOB 30 days written notice of its intent to open a COMET.

Since 2007, DOB has held quarterly financial education meetings, teleconferences and webinars to encourage community reinvestment. The goal of these events is to provide innovative ideas, best practices and examples of successful financial education programs. Each session targets financial institutions, government agencies, nonprofit organizations, teachers, individuals and community leaders who are interested in providing consumer education and improving financial literacy in their communities. Although the statewide on-site workshops have been well attended, the web-based training has resulted in increased participation by bankers located in rural and remote areas statewide and also has reached out-of-state participants.

The DOB provides consumer services through several channels, including the consumer assistance section of its website and agency publications. It also works to assess how well banks are meeting the needs of their communities by performing follow-up reviews on actions taken to correct weaknesses previously noted in CRA examination reports.

Five-Year Joint Financial Literacy Survey and Annual Financial Literacy Summit

The Texas Department of Banking, Independent Bankers Association of Texas (IBAT) and Texas Bankers Association (TBA) jointly launched an online survey in 2011 to gather information on the various levels of financial education offered by Texas banks. The survey compiles data over a five-year period and is sent to state-chartered banks and the entire membership rosters of IBAT and TBA. Several survey questions request information on the curriculum banks use to teach financial literacy and the specific target audience.

Results from the 2010 survey have been compared to the 2011 survey to measure the level of success in these initiatives. According to the 2011 summary, 66 percent of the responding banks had an active financial education outreach in their communities. About 28.3 percent were interested in offering a financial education program and only 5.4 percent expressed no interest. Of those that do not offer financial education programs, most were interested. The majority of bank financial education programs targeted high school students (80 percent).[119] Results from previous years are available on the DOB's website.

Texas law requires high schools to offer financial education courses to students. The most widely offered financial education product was identity theft protection services. Mortgage products are the second most common, followed by online savings products and small business loans. Results from the joint financial literacy survey also indicated that bankers were interested in participating in an annual financial literacy summit co-hosted by the Texas Bankers Association and Independent Bankers Association of Texas.

Texas law requires high schools to offer financial education courses to students.

Economic Development Strategies

The Office of the Governor's Small Business Division, within the Economic Development and Tourism Division, works to establish the state as the premier place to start and grow a small business, by identifying and tackling legal and financial barriers for small, medium-sized and historically underutilized businesses (HUBs). By assisting small and medium-sized enterprises with expansion programs, policies and directives, and developing strategies and outlooks for small business development both domestically and internationally, the Small Business Division helps to promote the interests of Texas small businesses and provides them with the necessary information and resources needed to succeed in the global marketplace.

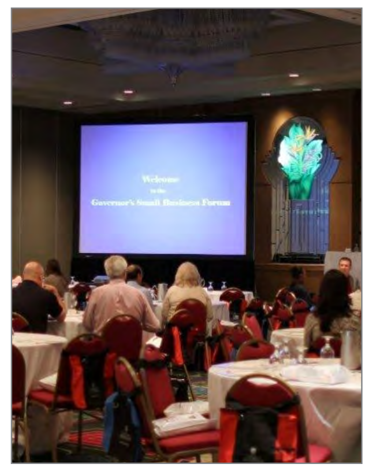
The division responds to individual, community and industry requests for help and information and refers parties to relevant resource providers and partners. The Small Business team also serves on various interagency work groups and task forces to represent Texas small business interests.

Texas Small Business Division Services and Activities:

- Serves as the principal advocate for Texas small business owners, providing information and resources that include consideration of all legislation and regulations affecting Texas small businesses.
- Represents the views and interests of Texas small businesses before other state agencies and departments.

- Enlists the cooperation and assistance of public and private agencies, business organizations, industry associations and other government partners in conveying information about programs and services available to small businesses.
- Works with experts, authorities and organizations in various fields of small business assistance including but not limited to access to capital, business investment, venture capital investment, commercial banking, insurance, rural affairs and export trade and financing.
- Assists Texas small businesses in identifying technical assistance resources such as business and employer services, access to capital, certification and state, local and federal procurement opportunities.
- Convenes statewide the Governor's Small Business Forums to assist Texas small businesses with information, resources and networking opportunities and acknowledges the successes of small businesses via the Governor's Small Business Recognition Awards.

During 2012, the Governor's Small Business team worked with local, state and federal partners to convene select Governor's Small Business Forums in various cities across the Lone Star State. These forums are designed to educate the Texas Entrepreneur and Texas Small Business community to the challenges and pitfalls made in starting, operating and growing a business while illuminating the many opportunities, tools and resources available to the greater small business community. Working with local, state and federal partners, these forums allow business owners to meet lenders, learn more about financing options, insurance and healthcare concerns, licensing, professional development initiatives, exports and a variety of other small business matters. Likewise, these forums recognize the great achievements of local small businesses and the valuable contributions they make to their local economies.



Governor's Small Business Forum.

The Governor's Small Business Forums will focus on the following topics:

- Workforce Development
- Business Start-up Essentials
- De-mystifying the Lending Process
- Marketing Your Business
- Hiring and Managing Employees
- Encouraging Small Business Networking and Capacity Building
- Providing Contacts with Federal, State and Local Government Agencies
- Promoting Entrepreneurship in Texas
- Export Trade Opportunities and Resources
- Services and Opportunities for Minorities, Women-Owned Businesses and Veterans

Housing Strategies

As a result of the economic downturn, TDHCA is developing new programs and expanding existing programs to encourage community reinvestment. These programs focus on creating a stable housing market during the foreclosure crisis and leveraging funding to increase savings to low-income Texans.

Energy Efficiency

ARRA expanded TDHCA's existing Weatherization Assistance Program (WAP) from a previous funding level of approximately $13 million per year to $327 million, to be spent by March 2012. The pre-existing WAP allocation originally was administered by an existing subrecipient network of 32 agencies that provided weatherization services to all 254 Texas counties. Eleven additional cities were temporarily added to the existing subrecipient network because of the significant increase funding and the short timeframe for expenditure. The expanded funding is expected to weatherize 33,908 housing units.

ARRA modified the annual WAP allocation guidelines to allow the department to serve more households with WAP funds and supply greater energy cost savings. ARRA raised the household income limits from 125 percent to 200 percent of federal poverty guidelines, thus qualifying more Texas households. It also raised the monetary cap on WAP funds that may be spent on each household from $3,044 in 2009 to $6,500.[120] The U.S. Department of Energy (DOE) estimates that a typical household saves approximately $400 a year as a result of weatherization activities performed on the home.[121] An additional benefit of weatherization is the reduction in greenhouse gases as a result of increased energy efficiency.

Quarter Ending	Jobs Created/Retained
9/30/2009	2.73
12/31/2009	117.74
3/31/2010	297.27
6/30/2010	626.08
9/30/2010	943.33

The U.S. Department of Energy (DOE) estimates that a typical household saves approximately $400 a year as a result of weatherization activities performed on the home.

ARRA WAP has stimulated the economy through quality job training and job creation. "The weatherization program is successfully delivering energy and cost savings for American families while helping to rebuild our economy," says DOE Secretary Steven Chu. "These investments in energy efficiency under the Recovery Act are putting thousands of people to work in Texas and across the country as part of the clean energy future."[122]

The TDHCA Weatherization Training Academy is an educational service of TDHCA that is funded by DOE and ARRA. TDHCA established the Training Academy with the purpose of providing quality training and technical assistance to the members of the WAP subrecipient network. To be eligible to attend and receive training and technical assistance, individuals must be members of TDHCA's subrecipient network or an authorized subcontractor of TDHCA's WAP subrecipient network. Training Academy courses include Basic and Advanced Weatherization, Weatherization Program Management, Lead Safe Renovator, Multifamily Weatherization, NEAT/MHEA Weatherization Audit, Mobile Home Weatherization and HVAC Weatherization. As of November 2010, the WAP Training Academy had provided 145 classes, trained a total of 1,928 students and provided a total of 62 days of technical assistance. The Training Academy timeline is from October 2009 through March 2012.[123]

State General Revenue for Single and Multifamily Housing Activities

During the 2009 legislative session, TDHCA submitted a Legislative Appropriations Request for an additional $20 million annually for fiscal 2010 and 2011 for the State's Housing Trust Fund (HTF). The 2009 Legislature approved a total of $21,927,750 in Housing Trust Fund money for the 2010-11 biennium, an increase of 87 percent from the previous biennium. Funding was reduced by $1.07 million to $19,977,750 for fiscal 2011 as part of budget reductions.[124] With additional HTF funds, TDHCA can better serve hard-to-reach populations and leverage other funding.

Because it does not have federal restrictions, the HTF is flexible enough to target specific hard-to-reach populations, including persons with disabilities and residents of *colonias*. The fund can be used to provide homebuyer and rental assistance for veterans; expand the successful Bootstrap Home Loan Program; provide homebuyer assistance and barrier removal for persons with disabilities; and offer gap financing for rural rental development. Additionally, through the Affordable Housing Match Program, the HTF can be used to provide funding to nonprofit organizations for the purpose of leveraging them as match for the production and/or provision of affordable housing and greater access to federal and private funds for low-income housing.[125]

These leveraging activities have stimulated additional economic investment in local communities. In December 2010, the Comptroller's office analyzed the estimated economic impact of the HTF on the Texas economy. Based on fiscal 2010 expenditures for single and multifamily new construction and rehabilitation, homebuyer assistance and rental assistance activities, the HTF has "the potential to generate an additional $8.85 million in the production of intermediate and final goods and services in various sectors of the state economy."[126] About $4.13 million of this additional impact is within Texas industries that supply inputs to home construction and rehabilitation activities associated with the HTF, while the remaining $4.7 million is associated with industries that produce goods and services that serve the consumer needs of workers in the housing construction and rehabilitation industries.

Multifamily housing construction.

Foreclosure Prevention

The nationwide mortgage crisis gave rise to the need for both foreclosure prevention activities as well as revitalization efforts to help areas recover from the large number of foreclosures have already occurred. In the fourth quarter of 2011, there were more than 586,100 reported foreclosures in the U.S., down 27 percent from the same quarter in 2010. Nevada, at 6 percent, posted the nation's highest foreclosure rate for the fifth year, followed by Arizona (4.14 percent), California (3.19 percent), Georgia (2.71 percent), Utah (2.32 percent), Michigan (2.21 percent), Florida (2.06 percent), Illinois (1.95 percent), Colorado (1.78 percent) and Idaho (1.77 percent).[127]

To address the need for prevention assistance, the Housing and Economic Recovery Act of 2008 (HERA) authorized NeighborWorks America to continue the National Foreclosure Mitigation Counseling (NFMC) Program, originally authorized by the Fiscal 2008 Consolidated Appropriations Act. According to an Urban Land Institute report, "the relative odds of counseled homeowners curing their foreclosures were 1.7 times greater than if they had not received NFMC counseling," and, for clients that received loan modifications, "the relative odds of bringing their loans current were 53 percent higher if they received pre-modification counseling than if they did not." [128]

NFMC's federal funds are available for foreclosure intervention counseling, training and administration expenses. The program's purpose is to expand and supplement foreclosure counseling, particularly in "areas of greatest need," areas experiencing a high rate of subprime lending, delinquent loans and foreclosure starts. The three NFMC funding categories are Counseling Funds, Program-Related Support and Operational Oversight. Counseling funds are used to provide financial counseling to homeowners in danger of foreclosure. Program-Related Support are funds used to support the direct costs associated with increasing effectiveness and efficiency of the foreclosure programs, such as outreach to delinquent clients, data collection and the preparation of quarterly reports. Operational Oversight is available only to intermediaries and state housing finance agencies and is for program administration.

TDHCA received $999,743 in NFMC funds between December 2008 and December 2010. These funds helped serve 2,813 households. The most successful tool used by counseling agencies was initiating a forbearance agreement or initiating a repayment plan, which was successful for 355 households. Other tools commonly used include a forbearance agreement or repayment plan (355), negotiation of mortgage modifications (316 households) and bringing the mortgage current (259 households). Due to the nature of the counseling process, counseling may continue for many months while the counselors and homeowners negotiate with the servicer (1,091 households). The outcomes of the counseling sessions are illustrated in the table below.

Counseling Outcome-NFMC Combined, Rounds 2, 3 & 4	Households
Bankruptcy	106
Brought mortgage current (with and without rescue funds)	259
Counseled and referred for legal assistance, another social service or emergency assistance agency	53
Currently in negotiation with servicer; outcome unknown	1,091
Currently Receiving Foreclosure Prevention/Budget Counseling	158
Executed a Deed-in-Lieu	6
Foreclosure put on hold or in moratorium; final outcome unknown	16
Initiated forbearance agreement/repayment plan	355
Mortgage Foreclosed	61
Mortgage Modified	316
Mortgage refinanced (non-FHA product)	15
Obtained partial claim loan from FHA lender	11
Other (e.g. Received a Second Mortgage, Home Lost Due to Tax Sale or Condemnation)	38
Pre-foreclosure sale/short sale	36
Referred homeowner to servicer with action plan and no further counseling activity; outcome unknown	186
Sold property (not short sale)	24
Withdrew from counseling	82
Total	**2,813**

To address the need for reinvestment and revitalization in neighborhoods with high instances of foreclosure, HERA created the Neighborhood Stabilization Program (NSP).

To address the need for reinvestment and revitalization in neighborhoods with high instances of foreclosure, HERA created the Neighborhood Stabilization Program (NSP). Through NSP 1, the initial portion, TDHCA received about $102 million during 18 months to rehabilitate, resell or redevelop foreclosed properties. This program is meant to stabilize communities by targeting properties that could blight further community reinvestment efforts. Each subrecipient is required to set aside at least 35 percent of its non-administrative allocation to benefit households with incomes less than or equal to 50 percent of AMFI. The balance will be used to purchase and rehabilitate abandoned or foreclosed properties and sell them to households earning 120 percent of AMFI or less. Funds have been awarded to units of local government and nonprofit affordable housing providers. All funds were obligated to specific projects or properties by September 2010, but will be spent during a multi-year period.

NSP 3, created by Dodd-Frank act in July 2010, furthers these revitalization efforts. The allocation formula provides an additional $18 million in NSP funds to Texas.

$10,753,264 will be granted directly to communities impacted by the foreclosure crisis; TDHCA will receive $7,284,978 to be distributed statewide.[129] Based on TDHCA's prior experience with NSP and other federal funds, it expects to fund 170 units of housing for low, moderate and middle income households, with most of the units serving those at or below 50 percent of AMFI.[130]

Homelessness Prevention

ARRA created the Homelessness Prevention and Rapid Re-Housing Program (HPRP) to enable persons who are homeless or at risk of homelessness to maintain housing. This increased emphasis on homelessness *prevention* is a unique undertaking, as previous federal programs such as the Emergency Shelter Grant Program and Community Services Block Grant Program emphasized services for individuals *already* faced with poverty and homelessness.

The department received $41,472,772 in HPRP funds from the U.S. Department of Housing and Urban Development (HUD), which then were awarded to 58 eligible applicants. The two-year contract period ended Aug. 31, 2011. ARRA required that 60 percent of the HPRP funds be spent within two years, with all funds to be spent by July 16, 2012.

NSP-funded alternative shelter in Texas.

The intent of HPRP is to move program participants to stability, either through their own means or with public assistance, as appropriate. HPRP is not intended to provide long-term support for program participants; its assistance is limited to 18 months. The program was created in response to the financial stress on individuals and households due to the impact of the current economic downturn. HPRP funds homeless prevention assistance to individuals and households who would otherwise become homeless and assists in rapidly re-housing homeless persons, as defined by Section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11303). Although HPRP funding will be fully expended by 2012, this focus on prevention and housing stability will be carried forward due to passage of the Homeless Emergency and Rapid Transition to Housing (HEARTH) Act of 2009. The HEARTH Act amends the McKinney-Vento Act to increase prevention resources provided by HUD.[131]

Two target populations facing housing instability are eligible to receive funding under HPRP: individuals and families who risk of becoming homeless and may need temporary rent or utility assistance or assistance to move to another unit; and homeless individuals and families living in emergency or transitional shelters or places not intended for habitation who need temporary assistance to obtain and retain housing.

Additionally, the department set aside 5 percent of funds for a Statewide "Access to Mainstream Services Pilot Program," to create homelessness prevention councils to address "feeder" systems into homelessness, such as foster care, criminal justice, behavioral health and the military by coordinating and encouraging access to HPRP and mainstream resources.[132] Below are descriptions of these programs.

HPRP Pilot Subrecipient	Program Activities Funded	Persons Served (9/1/2009-12/31/2010)
Any Baby Can (Austin)	Provide case management to 200 families with children with special needs to assist them to secure and maintain housing and address issues that put them at risk of homelessness and assist them to work towards self-sufficiency.	245
Caritas of Austin-Pilot (Austin, TX)	The project is a collaborative effort to target five of the most at-risk of homelessness subpopulations including persons with a history of institutional incarceration and who have chronic health maladies, substance abuse issues, mental health/developmental disabilities and/or physical disabilities. Case management will be provided to 650 unduplicated persons and coordinate service provision to meet the needs of persons served.	228
Dallas County MHMR Center (Dallas)	Provide 238 unduplicated persons with case management to prevent homelessness. Targeted populations will include persons with mental illness, persons with substance abuse issues, persons with a history of past institutionalizations including prisons and mental health institutions, youths aging out of the foster care system living with a mental illness and youths with a mental illness living in homeless shelters, and persons with HIV/AIDS. Case managers will coordinate services to link persons to homeless service providers in the area that can provide rental assistance and other assistance leading to housing stability.	350
El Paso Coalition for the Homeless-Pilot (El Paso)	Provide case management services to 120 unduplicated persons who have mental illness and person with HIV/AIDS who are precariously housed and at risk of homelessness. The project will provide intensive case management and develop an individualized housing and service plan, link individuals to housing and mainstream services and connect persons with health services and assistance programs to meet housing needs.	105
SEARCH-Pilot (Houston)	Provide services to 219 unduplicated persons with mental illness and/or chemical dependency challenges who are exiting jails in Harris County. The focus of the project is to prevent their return to homelessness by intervening in their lives prior to release. The intervention will focus on providing case management services to meet various needs, locate housing for them and work towards transitioning them to permanent housing.	63

To target funds for its programs, TDHCA conducts housing research, education and outreach efforts.

Education, Training and Outreach

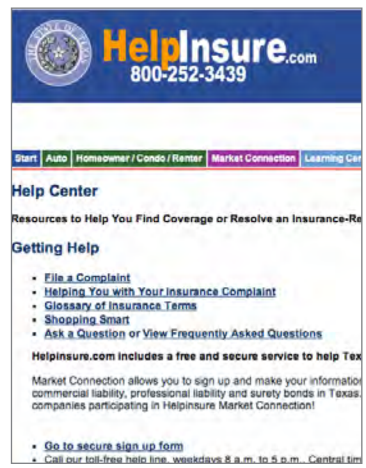
To target funds for its programs, TDHCA conducts housing research, education and outreach efforts. Texas Government Code §2306.259 established the Affordable Housing Research and Information Program, which requires TDHCA to undertake four activities: periodic market studies to determine the need for low-income housing; research to determine the effect of affordable housing developments on surrounding neighborhoods; research into affordable housing development approaches; and education and outreach efforts that will help the public understand the nature and purpose of affordable housing.

TDHCA received $120,000 annually in state funding in fiscal 2010 and 2011 for these activities. In fiscal 2010, the Housing and Transportation Summit provided housing and transportation program information to encourage individuals and organizations familiar with the issues facing persons with disabilities to address linking the housing and transportation needs of people with disabilities. The Race, Place and Fair Housing in Texas Conference helped to raise awareness of legal developments and the new focus on city and state obligations to affirmatively further fair housing opportunities for persons of color; raise awareness of the importance of linking housing to high-opportunity areas; and provide participants with the information and tools they need to make fair housing an effective aspect of community planning.

Insurance Strategies

The Texas Department of Insurance's primary community reinvestment goal is making insurance affordable and available to Texans. TDI has approved new policy forms and endorsements for homeowner and personal automobile insurance, to encourage a competitive market by ensuring that consumers can choose from an array of fairly priced products. (Endorsements are options, generally to add coverage, in an insurance policy.)

TDI's online program *Helpinsure.com* provides information to help consumers shop for auto and residential property insurance. Consumers can view and compare sample rates provided by insurance companies, obtain information about companies and agents and learn more about the types of insurance they need to protect family and property. TDI's Consumer Protection Division sponsors educational programs to help consumers determine their available insurance options. It also provides instructions on how to file a complaint if specific products are not offered in a consumer's area.



www.helpinsure.com
Texas Department of Insurance website helps consumers compare sample auto and property insurance rates.

Other statutory programs help protect consumers from the loss of insurance, even when an insurer becomes insolvent. Most insurance policies are covered by one of the state's guaranty funds, which pay claims for insurers that become insolvent. The funds cover up to $100,000 for individual life insurance and annuity policies and up to $300,000 for property and casualty insurance policies.

Certified Capital Company State Economic Development (CAPCO) Strategies

The need for accessible growth capital in Texas is undeniable. The CAPCO legislation was designed to support entrepreneurs with venture capital to develop new products or services and provide seed or expansion capital. Typically, qualified businesses include those identified as early-stage businesses or that are strategically located in low-income communities. A qualified business must maintain its headquarters and employ at least 80 percent of its payroll in Texas. If investments fail to meet prescribed tests, the business may be disallowed as a qualified CAPCO investment. Since demand for growth capital from young businesses far exceeds the supply, CAPCO investment managers have a multitude of investment options.

As of December 2009, more than $188 million had been invested in Texas' businesses through the Texas CAPCO Program. While it will take years before the full impact of the program is known, there are signs that the program provides access to needed business capital. It is encouraging that at this early stage, interest and participation among insurance company investors has been considerable. Several venture capital companies have either returned to Texas or established new operations in the state in anticipation of expanded venture capital activity.

Appendix A:
CRA Evaluations

Four federal banking regulatory agencies regularly examine financial institutions using CRA regulations and examination procedures. The Federal Reserve board oversees state-chartered banks that are members of the Federal Reserve System and bank holding companies. The Federal Deposit Insurance Corporation (FDIC) oversees state-chartered banks and savings banks that are not Federal Reserve members. Until June 30, 2011,[133] the Office of Thrift Supervision (OTS) regulated federally chartered savings banks and savings and loan associations, while the Office of the Comptroller of the Currency (OCC) regulates national banks, federal branches and agencies of foreign banks, their employees, stockholders and agents. The Federal Financial Institutions Examination Council (FFIEC) also provides interagency information regarding the CRA.[134]

As of 2011, federal banking regulatory agencies use CRA exams to scrutinize banks about once every two years for banks or thrifts with assets of $250 million or more, and once every four or five years for small banks with assets of less than $250 million. One of four grades is given to banks and thrifts from the CRA exam: Outstanding, Satisfactory, Needs to Improve and Substantial Non-Compliance. Federal regulatory agencies publish a schedule of CRA exams on their websites updated every three months.

In December 2011, the Federal Reserve Bank announced annual adjustments to the asset-size thresholds used to define small bank, small savings association, intermediate small bank and intermediate small savings association under the Community Reinvestment Act (CRA) regulations.[135] The annual adjustments are required by the CRA rules. Financial institutions are evaluated under different CRA procedures based upon their asset size. Those meeting the small and intermediate small asset-size threshold are not subjected to the reporting requirements applicable to large banks. Annual adjustments to these asset-size thresholds are based on the change in the average of the Consumer Price Index (CPI) for urban wage earners and clerical workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million. As a result of the 3.43 percent increase in the CPI index for the period ending in November 2011, the definitions of small and intermediate small institutions for CRA examinations will change as follows:

- "small bank" or "small savings association" means an institution that, as of Dec. 31 of either of the prior two calendar years, had assets of less than $1.160 billion.
- "intermediate small bank" or "intermediate small savings association" means a small institution with assets of at least $290 million as of Dec. 31 of both of the prior two calendar years, and less than $1.160 billion as of Dec. 31 of either of the prior two calendar years.

These asset-size threshold adjustments are effective as of Jan. 1, 2012.[136] The agencies will publish the adjustments in the *Federal Register*. In addition, the agencies will post a list of the current and historical asset-size thresholds on the website of the Federal Financial Institutions Examination Council. Annual adjustments to asset-size thresholds follow the year-to-year change in the average unadjusted CPI for urban wage earners and clerical workers, for every 12-month period ending in November, rounded up to the nearest million. Adjustments for banks are required by the 2005 CRA regulatory amendments; OTS' 2007 CRA regulatory amendments apply to annual adjustments for savings associations.

Evaluations and Bank Size

1. **Small banks with less than $250 million** are evaluated under only a lending test based on five factors including responses to public complaints. There is no reporting of CRA data on small business or community development lending. Intermediate small banks and thrifts with assets between $250 million and $1 billion receive the lending and community development (CD) test and are not required to report CRA data on small business or farm lending. Large bank CRA exams apply to banks with assets of $1 billion or more. Large banks are tested on their lending, investment and service to the community or communities they serve. Large banks are required to report CRA small business, small farm and CD loan data. Wholesale and Limited Purpose Banks are tested using a Community Development Test Strategic Plan that is mostly applied to non-retail banks. A bank can choose to include or exclude affiliates. The Dodd-Frank act preserves authority for the prudential federal supervisor to conduct CRA examinations while giving the Consumer Protection Bureau authority to conduct exams for HMDA and ECOA.[137]
2. **Depository Institutions and Credit Unions with Assets of $100 Billion or Less.** Under the Dodd-Frank Act (2010), the Consumer Protection Bureau has exclusive consumer rulemaking authority and exclusive examination authority over any insured depository institution or credit union with total assets in excess of $10 billion, or any affiliate thereof. For state-chartered depositories with more than $10 billion in assets, the bureau is required to pursue arrangements and agreements with state regulators on joint and coordinated examinations. To minimize regulatory burden, the bureau shall coordinate its supervisory activities with the supervisory activities conducted by prudential federal regulators and the state bank regulatory authorities, including consultation regarding their respective schedules for examining covered persons and requirements regarding reports to be submitted by covered persons. To that end, the bureau shall, to the fullest extent possible, use reports that have been provided to a federal or state agency and information that has been publicly reported. The bureau also has primary enforcement authority over insured depositories and credit unions with more than $10 billion. Any other federal agency authorized to enforce a federal consumer financial law may recommend that the bureau initiate an enforcement action. If the bureau fails to do so within 120 days, the other agency is authorized to initiate an enforcement proceeding and to conduct follow-up supervisory functions. For state-chartered depositories with more than $10 billion in assets, state banking regulators and state attorneys general retain existing enforcement authority, as well as authority to enforce federal consumer financial protection laws and Bureau regulations.
3. **Smaller Insured Depository Institutions**. The bureau has exclusive consumer protection-related rulemaking authority for insured depository institutions and credit unions with total assets of $10 billion or less. The bureau can require reports from these institutions and refer suspected violations of law to other agencies and regulators. However, the existing banking agencies continue to have examination and enforcement authority for these institutions. The bureau may participate in examinations conducted by prudential regulators on a sampling basis. The prudential federal regulator retains exclusive federal enforcement authority. For state-chartered institutions with $10 billion or less in assets, state banking regulators and state attorneys general retain existing state enforcement authority, as well as authority to enforce federal consumer protection laws and bureau regulations.[138]
4. **Non-Depositories.** The bureau will have supervisory and enforcement authority over non-depository covered persons. The bureau can define the class of non-depository covered persons as they see fit, but the definition at a minimum must include mortgage-related businesses (regardless of size), payday lenders (regardless of size) and private student loan providers. The bureau has supervisory

and enforcement authority over non-depository covered persons such as money services businesses; holds exclusive rulemaking and examination authority, and shared enforcement authority with state regulators and state attorneys general; and may require reports and recordkeeping requirements on such entities. Non-depositories may also be required to register with either an existing system, such as the CSBS/AARMR Nationwide Mortgage Licensing System & Registry (NMLS), or with a new system. The bureau is required to consult with state regulators on the coordinated or combined use of registration systems. Furthermore, the bureau is directed to implement a risk-based supervision program based on the risks to consumers and shall include the consideration of existing state consumer protection supervision, the asset size of the covered entity and its transaction volume. The bureau also must coordinate with federal prudential regulators and state banking regulators.[139]

Appendix B:
CRA Regulations

For a history of CRA regulations, questions and answers, related amendments and associated documents for download by regulatory agency, visit the following links:

Board of Governors of the Federal Reserve FRB
http://www.federalreserve.gov

Federal Deposit Insurance Corporation FDIC
http://www.fdic.gov

Federal Financial Institutions Examination Council FFIEC
http://www.ffıcc.gov/default.htm

Office of the Comptroller of Currency OCC
http://www.occ.gov

Appendix C:
History of HMDA

The Home Mortgage Disclosure Act (HMDA) was enacted by Congress in 1975 and was implemented by the Federal Reserve Board's Regulation C.[140] On July 21, 2011, the rule-writing authority of Regulation C was transferred to the Consumer Financial Protection Bureau (CFPB).

For a complete history of HMDA, visit the Federal Financial Institutions Examination Council FFIEC website at http://www.ffiec.gov/hmda/.

Appendix D: Dodd-Frank Act Changes Affecting HMDA (2010-2011)

On July 21, 2011, the Dodd-Frank Act became effective, resulting in changes to HMDA data, collection and reporting requirements for HMDA reporting institutions. Savings associations or thrifts previously regulated by the OTS were reassigned to the OCC or the FDIC. Previously regulated thrift subsidiaries were reassigned to the OCC, the FDIC or the Federal Reserve System (FRS).[141]

In 2010, a notice was posted to the FFIEC HMDA website that provided information about changes to HMDA Institution Disclosure Statements and Metropolitan Statistical Area (MSA/MD) Aggregate and National Aggregate Reports made for the presentation of 2009 HMDA data.[142] As a consequence of changes to the loan price (rate spread) reporting rules made under Regulation C in 2008, the 2009 HMDA data reflect price information reported under two different methodologies. The changes to the disclosure statements and reports were made to help ensure the accuracy of the information provided to the public. The changes affected only tables that included loan pricing information. In addition, the raw data made available to the public by the FFIEC contained pricing information for all loans and included a field that indicated whether or not the application for the loan was taken prior to Oct. 1, 2009.

In December 2010, the FRS Board raised the asset exemption threshold for depository institutions to $40 million for data collection in 2011. The asset threshold for nondepository institutions for the 2011 collection remained unchanged at $10 million or less (when combined with the assets of any parent corporation) or originated 100 or more home purchase loans (including refinancings of home purchase loans) in the preceding calendar year.

The rules used to determine whether a loan was classified as higher-priced under HMDA were changed in 2008. The 2010 data reflect the first full year of data reported under the revised loan pricing rules.

The Dodd-Frank Act transferred HMDA rulemaking authority to the Consumer Financial Protection Bureau (CFPB). It also affected HMDA supervisory and enforcement authority of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA) and the Department of Housing and Urban Development (HUD).

The Dodd-Frank Act also transferred OTS's functions on July 21, 2011. While most of its functions were transferred to the OCC, certain other authorities of the OTS were transferred to the FDIC, the FRS and the CFPB. The appropriate federal agencies for HMDA Reporting and Compliance questions are:

- CFPB for very large banks, thrifts, credit unions (those with over $10 billion in assets) and their affiliates (including affiliates that are themselves banks, thrifts, or credit unions regardless of asset size and subsidiaries of such affiliates);

- FRS for state member banks of the Federal Reserve System, their subsidiaries, subsidiaries of bank holding companies, branches and agencies of foreign banks (other than federal branches, federal agencies and insured state branches of foreign banks), commercial lending companies owned or controlled by foreign banks and organizations operating under section 25 or 25A of the Federal Reserve Act and, as a result of the Dodd-Frank Act changes, subsidiaries of savings and loan holding companies;
- FDIC for nonmember insured banks (except for federal savings banks) and their subsidiaries, insured state branches of foreign banks that are supervised by the FDIC, certain other depository institutions and, as a result of the Dodd-Frank changes, state-chartered savings associations and their subsidiaries;
- OCC for national banks and their subsidiaries, federal branches and federal agencies of foreign banks, and as a result of the Dodd-Frank Act changes, federal savings associations and their subsidiaries;
- NCUA for credit unions not being handled by the CFPB as indicated above; and
- HUD for other lending institutions not being handled by the CFPB or another agency as indicated above.

In February 2012, the CFPB raised the asset exemption threshold for depository institutions to $41 million for data collection in 2012.[143]

Appendix E: Small Business Data Requirements under the CRA and the Dodd-Frank Act

One result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 is the Small Business Loan Data Collection addition to the Equal Credit Opportunity Act (ECOA). A new ECOA section creates data collection and reporting requirements for lenders to women-owned, minority-owned and small businesses.[144]

Section 704B of ECOA requires financial institutions to inquire at application on all commercial loans whether the business applicant is a women-owned, minority-owned, or a small business. This information must be requested regardless of how the application is received by the financial institution; however the applicant is free to decline to respond to this inquiry. Section 704B defines women-owned and minority-owned businesses as those where more than 50 percent ownership or control is held by one or more women or minority individuals and more than 50 percent of the net profits or losses of the business accrue to one or more women or minority individuals.[145]

According to the Board of Governors of the Federal Reserve System, §1071 of the Dodd-Frank Act amended ECOA to require financial institutions to collect and report data for loans to minority-owned and women-owned businesses and small businesses. With the exception of motor vehicle dealers, the responsibility for issuing implementing regulations under ECOA was transferred from the Board to the CFPB. Accordingly, the Board and the CFPB clarified that although §1071 became effective on the designated transfer date of July 21, 2011, financial institutions and motor vehicle dealers do not have to comply with new data collection and reporting requirements until final implementing regulations become effective.[146]

A small business has the same meaning as a "small business concern" found in section three of the Small Business Act. Financial institutions must keep a record of the applicant's response to this inquiry for not less than three years and underwriters or any other officer or employee of the financial institution or its affiliates involved in "making any determination concerning an application for credit" should not have access to the information collected in response to the inquiry. However, if the financial institution determines that these employees should have access to the information collected, it must provide the applicant with a notice indicating that the employees will have access to information and that the financial institution may not discriminate against the applicant on the basis of the information provided.

For more small business data requirements details, visit the Federal Reserve Board website (http://www.federalreserve.gov/newsevents/reform_milestones.htm) the Dodd-Frank Act, Section 1071, Subtitle G-Regulatory Improvements regarding small business data collection and Section 704B regarding small business loan data collection.[147]

Appendix F:
2010 Dodd-Frank Wall Street Reforms[148]

Passed in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act contained 16 titles that significantly overhauled regulation in the U.S. financial industries.

TITLE I creates a Financial Stability Oversight Council to address emerging and systemic risks throughout the financial services industry. This council of regulators will monitor the financial system for "systemic risk" and will determine which entities pose significant systemic risk. The council will make recommendations to regulators for implementation of increased risk standards, called "prudential regulation," to be applied to designated nonbanks and to bank-holding companies with total consolidated assets of $50 billion or more. The act also provides exemptions for community banks with less than $50 million in assets from a provision that excludes Tier I capital calculations trust preferred securities. The act preserved the Federal Reserve's policy on small bank holding companies and grandfathered trust preferred securities issued before May 19, 2010 by bank holding companies with less than $15 billion in total assets.

TITLE II supplies a framework for liquidation by the Federal Deposit Insurance Corporation (FDIC) of large institutions that present systemic risk. The U.S. Treasury provides liquidity for the liquidation that must be paid back in 60 months.

TITLE III merges the Office of Thrift Supervision (OTS) into the Office of the Comptroller of the Currency (OOC) and spreads the OTS' regulatory responsibilities among other regulators. For example, the Federal Reserve oversees savings and loan holding companies, the OCC regulates federal savings associations and the FDIC regulates state savings associations. The act authorized this transfer of functions on the date one year from the date of enactment, with flexibility to extend the transfer for up to 18 months from the date of enactment. Under the act, regulators are required to issue regulations for entities brought under their regulatory purview no later than the date of the transfer of the functions. Once transferred, OTS employees became employees of the OCC or the FDIC.

TITLE IV establishes the regulation of investment advisers to hedge funds and restricts banks, banking affiliates and bank holding companies from proprietary investing or trading in a hedge fund or private equity fund.

Provides powers to the newly established Consumer Financial Protection Bureau (CFPB) as an independent office in the FRB with new authorities, functions and responsibilities under a broad list of consumer financial protection laws. (X)

Developed extensive requirements for the mortgage lending industry, including detailed requirements for appraisals, mortgage counseling, high-cost mortgages, mortgage originator compensation and underwriting, servicing and other matters. (XIV)

Preserves enforcement powers of states respecting financial institutions and restrict preemption of state laws by federal banking regulators[149]

Provided key changes for community banks including the modification of these banks' assessment base for deposit insurance. Before the Act, the base was domestic deposits less tangible equity, calculated as average consolidated total assets minus average tangible equity. As a result, larger financial institutions with more non-deposit assets will pay a greater percentage of the aggregate insurance assessment and smaller banks will pay less than they would have, perhaps as much as $4.5 billion less over the next three years.

Established a separate provision affecting community banks is the permanent increase in FDIC deposit insurance per depositor from $100,000 to $250,000, and the extension of the unlimited deposit coverage for non-interest bearing transaction accounts for two years. The act also increased the minimum reserve ratio for the Deposit Insurance Fund from 1.15 percent to 1.35 percent, but exempts institutions with assets of less than $10 billion from the cost of the increase. (III)

TITLE IV requires that most advisors to "private funds" register with the SEC. Private funds" are defined to cover most private equity funds, hedge funds and venture capital funds.

Redefined "accredited investor," a key provision of interest to community banks: for the next five years, the net worth calculation for determining an accredited investor is $1 million excluding the value of a primary residence. Previously, there was no such exclusion. After five years, the Securities and Exchange Commission is required to adjust the $1 million threshold for inflation. On July 23, the SEC answered questions concerning how the indebtedness secured by the primary residence should be treated, indicating that such indebtedness should be deducted from an investor's net worth while any equity in the primary residence is excluded. Community banks engaged in capital raising activities must amend the definition of "accredited investor" to conform. (IV).

TITLE V establishes a Federal Insurance Office in the Office of the Treasury to review the insurance industry and study the federal regulation of insurance for Congress.

TITLE VI implements the modified Volcker Rule, limiting the ability of certain bank and bank-related entities to engage in proprietary trading or invest in hedge funds and private equity funds to 3 percent of the entity's Tier 1 capital, among other restrictions. «Proprietary trading» is defined to include the purchase or sale of any security, derivative or contract for the sale of a commodity for future delivery, or option on such an instrument.

It also imposes exchange trading for derivatives contracts and new capital and margin requirements and various reporting obligations on OTC swap dealers and major swap participants. For community banks, the most important provision in this title levels the competitive playing field by prohibiting the Federal Reserve or FDIC from providing assistance to insured depository institutions involved in the swaps markets, with certain exceptions.

TITLE VII strengthens regulation and transparency of over-the counter derivatives markets.

TITLE VIII allows for a systemic approach to certain financial market payment, clearing and settlement systems. Designation as "systemically important" will require two-thirds of the Financial Stability Oversight Council.

TITLE IX has a number of provisions intended to protect investors, including risk retention requirements for certain asset-backed securities; reforms to regulation of credit rating agencies; establishment of an Investor Advisory Committee and an Office of Investor Advocate; and a required SEC study of whether a fiduciary duty standard of care for broker-dealers providing personalized investment advice to a retail customer should be created.

This title created new credit rating agency regulations, new requirements for executive compensation including shareholder "say on pay," and requires securitizers to keep economic interest in securitized assets.

For community banks, the most important section of this Title establishes a number of changes to corporate governance procedures for public companies that ultimately, and perhaps quickly, will become the "best practices" (if not the expected practices) for all corporations large and small. The most important of these are proxy access requirements for shareholders; disclosures about the failure to separate the roles of board chair and chief executive officer; shareholder voting on executive compensation; the establishment of an independent compensation committee; and require executive compensation disclosures and clawbacks. In addition, the Federal Reserve must issue regulations regarding incentive-based pay practices within nine months of the effective date of the act; these regulations will apply to institutions with more than $1 billion in assets.

For small, publicly held community banks, an important provision in this title is an amendment to the Sarbanes-Oxley Act to permanently exempt non-accelerated filers from section 404(b) of the act.

TITLE X is probably the most important title in HR 4173 for community banks. It will alter in dramatic fashion the way consumer credit is regulated, moving from an existing framework of federal regulation of disclosure and state regulation of fairness and suitability to a nationwide federal suitability framework. It establishes the Bureau of Consumer Financial Protection, an independent entity housed with the Federal Reserve, to provide a source of funding (initially $500 million) and authorizes the bureau to prohibit practices it finds to be "unfair," "deceptive," or "abusive," in addition to requiring certain disclosures. The words "unfair" and "deceptive" appear to and incorporate similar references in the enabling legislation of the Federal Trade Commission and some state consumer legislation. The "abusive" addition to this grant of regulatory scope, however, is new and it is likely that defining the term in this context will produce additional regulation and litigation. The bureau also may prohibit mandatory consumer arbitration provisions and oversee the mortgage reform and enforcement provisions of the act.

For community banks, in addition to creation of the bureau, this Title also contains a number of other important provisions. For example, it limits interchange fees for debit card transactions (including those involved with certain prepaid card products) to an amount established as reasonable under regulations to be issued by the Federal Reserve. Cards issued by banks with less than $10 billion in assets are exempt from this requirement, although the exemption has been criticized as ineffective because small banks will have to match the rates being offered by their larger competitors. Some community banks have estimated that this provision could mean hundreds of thousands of dollars of lost revenue. (X)

Another key change for community banks is the act's treatment of preemption. Essentially, the act will undo recent court decisions and OCC guidance that expanded the application of preemption to subsidiaries of national banks. The standard for the preemption of state law is to return to the one enunciated in a well-known court decision, *Barnet Bank v. Nelson*: "irreconcilable conflict" and "stand as an obstacle to the accomplishment" of the purpose of the federal law. The act also codified a recent U.S. Supreme Court decision stating that the visitorial powers provisions of the National Bank Act do not limit the authority of state attorneys general to bring actions against national banks to enforce state consumer protection laws. (X)

TITLE XI Federal Reserve System revisions gives the Government Accountability Office authority to conduct a one-time audit of the Federal Reserve's emergency lending during the credit crisis, and other auditing responsibilities over the Federal Reserve. The title also tightens the conditions under which the Fed may provide emergency assistance to institutions, and authorizes the FDIC to guarantee debts of banks and bank holding companies.

TITLE XII is intended to encourage low-and moderate-income individuals to create accounts in insured depository institutions and creates a program to provide low-cost loans of $2,500 or less.

TITLE XIII is a largely technical section dealing with previous programs for emergency assistance to insured financial institutions. It decreases the TARP funds authorized by under the Emergency Economic Stabilization Act of 2008 (the so-called TARP funds) from $700 billion to $475 billion.

TITLE XIV places new regulations on mortgage originators and imposes new disclosure requirements and appraisal reforms, the most important of which are the creation of a mortgage originator duty of care; the establishment of certain underwriting requirements so that at the time of origination the consumer has a reasonable ability to repay the loan; the creation of document requirements intended to eliminate "no document" and "low document" loans; the prohibition of steering incentives for mortgage originators; a prohibition on yield spread premiums, and prepayment penalties in many cases; and a provision allowing borrowers to assert as a foreclosure defense a contention that the lender violated the anti-steering restrictions or the reasonable repayment requirements.

TITLE XV offers miscellaneous provisions, such as a restriction on certain loans to heavily indebted countries and disclosure requirements for companies operating mines.

TITLE XVI amends the Internal Revenue Code to exclude from the definition of a Section 1256 contract any interest rate swap, currency swap, basis swap, interest rate cap, interest rate floor, commodity swap, equity swap, equity index swap, credit default swap or similar agreement. This provision shields such instruments from treatment as sold for its fair market value, market to market, on the last business day of the taxable year for capital gains or loss taxation purposes.

Appendix G:
Glossary

ARRA – American Recovery and Reinvestment Act of 2009.

Angel Investment Funds – groups of investors that pool money to invest together along with investments from individuals.

CAPCO – Certified Capital Company.

CDBG – Community Development Block Grant Program. A federal program that grants funds to local and state governments to be used to develop viable urban communities. Funds may be used for economic development, housing and infrastructure activities.

CDC – Community Development Corporation. A CDC provides affordable housing loans for low-income borrowers, manages loan funds for housing development and helps residents plan and track new investments in safe, sanitary and affordable housing and home reconstruction required to meet local building codes in rural, low-income areas.

CDFI – Community Development Financial Institution.

CRA – a 1977 federal law requiring regulating agencies to examine banks and savings and loan institutions to ensure that they follow affirmative steps to encourage commercial banks and savings and loans help meet the credit needs of communities where they are chartered to serve. Also known as Title VIII of the Housing and Community Development Act (CRA).

COG – Council of Governments.

***Colonia* –** a residential area along the Texas-Mexico border that may lack some of the basic living necessities such as electricity, paved roads, potable water, safe and sanitary housing and sewer systems.

CPI – Consumer Price Index.

CFPB – Consumer Finance Protection Bureau. Established in 2010 by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the CFPB promotes financial education; helps make markets for consumer financial products and services work more efficiently for Americans; enforces federal monitoring and enforcement of consumer markets and financial laws; and broadens choices among credit cards offered to consumers.

Crowd Funding – business capital-raising method of selling of small amounts of equity to many investors.

DETCOG – Deep East Texas Council of Government.

DOB – Texas Department of Banking.

DPAP – Down Payment Assistance Program.

EDAP – Economically Distressed Areas Program.

EDT – The Office of the Governor's Economic Development & Tourism Division.

ETCOG – East Texas Council of Government.

FDIC – Federal Deposit Insurance Corporation.

FEMA – Federal Emergency Management Association.

FFIEC – Federal Financial Institutions Examination Council.

FRB – Federal Reserve Board.

GLO – Texas General Land Office.

GLB – Gramm-Leach Bliley Act.

HERA – Housing and Economic Recovery Act.

HGAC – Houston-Galveston Area Council.

HHSP – Homeless Housing and Services Program.

HMDA – U.S. Home Mortgage Disclosure Act.

HPRP – Homelessness Prevention and Rapid Re-Housing Program

HUD – U.S. Department of Housing and Urban Development.

IBAT – Independent Bankers Association of Texas.

MOD – Method of Distribution.

MSA – Metropolitan Statistical Area.

NAHB – National Association of Home Builders.

NEFE – National Endowment for Financial Education.

NFMC – National Foreclosure Mitigation Counseling (NFMC) Program.

NSP – National Stabilization Program. Under the U.S. Department of Housing and Urban Development, the NSP provides funds to state and local governments and nonprofit organizations for the purchase and redevelopment of abandoned and foreclosed properties.

OCC – U.S. Office of the Comptroller of the Currency.

OCCC – Office of Consumer Credit Commissioner.

OMB – Office of Management and Budget.

OTS – U.S. Office of Thrift Supervision.

Rita GO Zone – The Rita GO Zone includes the portion of the Hurricane Rita Disaster Area determined by FEMA to be eligible for either individual and/or public assistance from the federal government.

SBA – U.S. Small Business Administration. Federal government agency that administers loan guarantees and small business development programs.

SBBCI – State Small Business Credit Initiative. Under the State Small Business Credit Initiative, participating states use federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but cannot obtain the loans they need to expand and create jobs.

SETRPC – Southeast Texas Regional Planning Commission.

STEP – The *Small Towns Environment Program,* a TxCDBG fund that provides funds to eligible applicants for water and sewer infrastructure improvements utilizing self-help methods.

TCF – Texas Capital Fund. This fund is used for projects that will create or retain permanent employment opportunities, especially for low- to moderate-income persons.

TFPA – The Texas FAIR Plan Association, an entity established by Texas Insurance Code §2211 to provide residential property insurance to qualified Texas citizens who are unable to obtain coverage from licensed insurance companies. This alternative market is a residual market of last resort and is not intended to compete with the standard property insurance market.

TxCDBG – Texas Community Development Block Grant Program.

TDHCA – Texas Department of Housing and Community Affairs.

TDI – Texas Department of Insurance.

TEF – Texas Enterprise Fund. This cash grant is used as a financial incentive tool for projects with estimated job creation and capital investment potential.

TEKS – Texas Essential Knowledge and Skills Test.

TSHEP – *Texas Statewide Homebuyer Education Program*. Since 1999, this program provides homebuyer counseling through experienced education providers, nonprofit housing providers, low-income housing advocates, for-profit housing providers, lenders and realtors.

TDA – Texas Department of Agriculture.

TDRA – Texas Department of Rural Affairs.

TEA – Texas Education Agency.

TFPA – Texas Fair Plan Association, an entity established by Texas Insurance Code §2211 to provide residential property insurance to qualified Texas citizens who cannot obtain coverage from licensed insurance companies. This alternative market is a residual market of last resort and is not intended to compete with the standard property insurance market.

TID – Texas Industry Development (TID) Loan Program. Administered by the EDT, the program provides capital to Texas communities at favorable market rates. Its main objective is to support projects that will stimulate job creation, corporate expansion and relocation of companies. TID loans can be used to acquire land, buildings, construction, machinery and equipment. TID financing is available for loans of more than $5 million. TID loans generally are requested by a community's economic development corporation (EDC) and repaid by project revenues. The term of the loan cannot extend beyond the useful life of the assets, or bond maturity in 2025.

TLF – Texas Leverage Fund.

Vendor Financing – loans of money by a company to a customer allowing the customer to buy products from it. Leasing allows small companies to avoid tying up cash in equipment to make money available for marketing opportunities, working capital or seasonal cash flow needs. Leasing also allows small businesses to fully expense lease payments as a rental providing valuable tax deductions.

WAP – Weatherization Assistance Program.

Endnotes

1 U.S. Congress, Joint Economic Committee, "Economic Overview and Outlook: Texas," http://jec.senate.gov/public/index.cfm?a=Files.Serve&File_id=0f000d10-ec8f-4689-a442-cfdda9f7bbe8. (Last visited June 9, 2011.)

2 G. Scott Thomas, "Texas Adds 732,800 jobs in 10 years: No Other State Tops 100,000," *The Business Journals* (May 24, 2011), http://www.bizjournals.com/bizjournals/on-numbers/scott-thomas/2011/05/texas-adds-732800-jobs-in-10-years.html. (Last visited July 11, 2012.)

3 U.S. Small Business Administration, Office of Advocacy, *The Small Business Advocate*, http://www.sba.gov/sites/default/files/SBQB_2011q3. (Last visited September 28, 2012.)

4 International Council for Small Business, http://www.icsb.org/article.asp?messageID=1046. (Last visited September 28, 2012.)

5 U.S. Small Business Administration, Office of Advocacy, "Frequently Asked Questions," http://www.sba.gov/sites/default/files/FINAL%20FAQ%202012%20Sept%202012%20web.pdf and http://www.sba.gov/sites/default/files/tx11_0.pdf. (Last visited October 5, 2012.)

6 U.S. Small Business Administration, Frequently Asked Questions, http://web.sba.gov/faqs/faqIndexAll.cfm?areaid=24. (Last visited September 28, 2012.)

7 U.S. Small Business Administration, Office of Advocacy, *The Small Business Share of GDP, 1998-2004*, by Katherine Kobe Economic Consulting Services, LLC (Washington. D.C., April 2007), http://archive.sba.gov/advo/research/rs299tot.pdf; and CHI Research, 2003 and http://web.sba.gov/faqs/faqIndexAll.cfm?areaid=24. (Last visited September 28, 2012.)

8 U.S. Small Business Administration, Office of Advocacy, "How Important are Small Businesses to the U.S. Economy?"

9 RealtyTrac, "2011 Year-End Foreclosure Market Report," http://www.realtytrac.com/content/foreclosure-market-report/2011-year-end-foreclosure-market-report-6984. (Last visited June 8, 2012.)

10 "Texas Gets $135 Million Grant for Foreclosure Mitigation Program," *Austin Business Journal* (June 21, 2011), http://www.bizjournals.com/austin/news/2011/06/21/texas-gets-135m-grant-for-foreclosure.html. (Last visited May 22, 2012).

11 U.S. Small Business Administration, "SBA Loan Queue Cleared One Week after Signing of Jobs Act," http://www.sba.gov/about-sba-services/7367/5509. (Last visited May 22, 2012).

12 U.S. Small Business Administration, "Small Business Jobs Act of 2010," http://www.sba.gov/content/small-business-jobs-act-2010. (Last visited May 21, 2012.)

13 U.S. Office of the White House, "White House Releases the Small Business Agenda: Growing America's Small Businesses to Win the Future Highlighting Critical Support for Small Businesses Across the Country." (Last visited June 15, 2012.)

14 Consumer Financial Protection Bureau, "Learn About the Bureau," http://www.consumerfinance.gov/the-bureau/. (Last visited May 22, 2012.)

15 U.S. Department of the Treasury, "National Statistics 2011- National Financial Capability Challenge," http://www.challenge.treas.gov/statistics_2012/state_2012.aspx?s=ALL. (Last visited May 22, 2012.)

16 Texas Department of Banking, *Texas Banking Report* (January 2011), www.banking.state.tx.us/pubs/bankrpt/0910qbr.pdf. (Last visited June 29, 2011.)

17 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report* (Austin, Texas, 2011), pp. 124-127, http://www.tdhca.state.tx.us/housing-center/docs/11-SLIHP.pdf. (Last visited May 22, 2012.)

[18] Texas Department of Agriculture, "Texas Community Development Block Grant Program 2011 Action Plan," http://www.texasagriculture.gov/Portals/0/Publications/RED/CDBG/cdbgActionPlan2012-Approved.pdf. (Last visited July 31, 2012.)

[19] Louis Hernandez, Jr., "Too Small to Fail," *Wall Street Journal* (October 7, 2010), http://online.wsj.com/article/SB10001424052748703735804575536094104047302.html. (Last visited May 23, 2011.)

[20] Independent Community Bankers of America, "Community Banking Facts," http://www.icba.org/files/ICBASites/PDFs/cbfacts.pdf. (Last visited May 23, 2012.)

[21] U.S. Office of Thrift Supervision, "The History of the Community Reinvestment Act," http://www.ots.treas.gov/?p=CRAHistoryOTSCRAResponsibilities. (Last visited July 15, 2012.)

[22] Independent Community Bankers of America, "Community Banking Facts."

[23] St. Louis Federal Reserve Board, "The Changing Landscape of Community Banking," Gary S. Corner, http://www.stlouisfed.org/publications/cb/articles/?id=1997.

[24] Reuters, "U.S. Closes Small Bank, Bringing 2011 total to 26," http://www.reuters.com/article/2011/03/25/us-usa-banks-failures-idUSTRE72O79V20110325. (Last visited May 23, 2012.)

[25] Texas Department of Banking, *Texas Bank Report*, "Commissioner's Comments," September 30, 2010, Texas Department of Banking, p. 1,.http://www.dob.texas.gov/pubs/bankrpt/0911qbr.pdf. (Last visited May 23, 2012.)

[26] U.S. Office of the Comptroller of the Currency, "Small Bank and Small Savings Association Asset Thresholds Revision," http://www.occ.gov/news-issuances/bulletins/2012/bulletin-2012-1.html. (Last visited July 15, 2012.)

[27] U.S. Department of the Treasury, "Community Reinvestment Act Regulations," 12 CFR, Parts 25 and 195, http://www.gpo.gov/fdsys/pkg/FR-2011-12-22/html/2011-32727.htm. (Last visited July 31, 2012.)

[28] Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, U.S. Office of the Comptroller of the Currency and U.S. Office of Thrift Supervision, "Agencies Release Annual CRA Asset-Size Threshold Adjustments for Small and Intermediate Small Institutions," http://www.occ.treas.gov/news-issuances/federal-register/75fr82217.pdf. (Last visited December 13, 2011.)

[29] "U.S. Office of Thrift Supervision Integration; Dodd-Frank Implementation," *Federal Register* (July 21, 2011), https://www.federalregister.gov/articles/2011/07/21/2011-18231/office-of-thrift-supervision-integration-dodd-frank-act-implementation. (Last visited July 31, 2012.)

[30] Federal Deposit Insurance Corporation, "FDIC Law, Regulations, Related Acts-Part 345," http://www.fdic.gov/regulations/laws/rules/2000-6500.html. (Last visited July 31, 2012.)

[31] U.S. Senate Committee on Banking, Housing and Urban Affairs, "Financial Services Modernization Act," http://banking.senate.gov/conf/grmleach.htm. (Last visited December 21, 2011.)

[32] U.S. Federal Deposit Insurance Corporation, "CRA Sunshine Requirements," http://www.fdic.gov/regulations/laws/publiccomments/sunshine.html. (Last visited December 21, 2011.)

[33] Paula Woesnner, "Recent Rule Changes Expand Definition of Community Development Under the CRA," *CommunityDividend* (July 2011), http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4675. (Last visited May 23, 2012.)

[34] Conference of State Bank Supervisors, "Dodd-Frank and the Future Role of State Supervision," August 2010, p. 1, http://www.csbs.org/news/csbswhitepapers/Documents/Dodd-Frank-FutureRoleof%20tateSupervision.pdf. (Last visited June 14, 2012.)

[35] U.S. Government Printing Office, "Electronic Code of Federal Regulations – Equal Opportunity Act, Regulation B," http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&sid=09558a8309d73086b9217fe5af1ce0ef&rgn=div5&view=text&node=12:8.0.2.14.1&idno=12#12:8.0.2.14.1.0.1.10. (Last visited October 12, 2012.)

[36] Michael S. Barr, "Credit Where It Counts: The Community Reinvestment Act and Its Critics," *New York University Law Review* (May 13, 2005), http://www3.law.nyu.edu/journals/lawreview/issues/vol80/no2/NYU202.pdf. (Last visited December 27, 2011.)

[37] John Taylor and Josh Silver, "The Community Reinvestment Act at 30: Looking Back and Looking to the Future," *New York Law School Review* (Vol. 53, 2008/2009), pp. 204-206, http://www.community-wealth.org/_pdfs/articles-publications/cdfis/article-taylor-silver.pdf. (Last visited December 27, 2011.)

[38] U.S. Small Business Administration, Office of Advocacy, "Frequently Asked Questions," http://www.sba.gov/sites/default/files/FINAL%20FAQ%202012%20Sept%202012%20web.pdf. (Last visited September 20, 2012.)

[39] U.S. Small Business Administration Office of Advocacy, "Small Business Profile, Texas," http://www.sba.gov/sites/default/files/tx11_0.pdf. (Last visited May 23, 2012.)

[40] U.S. Small Business Administration, Office of Advocacy, *Frequently Asked Questions*.

[41] U.S. Small Business Administration, Office of Advocacy, "Frequently Asked Questions about Small Business Finance," http://www.sba.gov/sites/default/files/files/Finance%20FAQ%208-25-11%20FINAL%20for%20web.pdf. (Last visited May 23, 2012.)

[42] U.S. Small Business Administration, Office of Advocacy, "Small Business and State Growth: An Econometric Investigation," http://www.sba.gov/advo/research/rs292tot.pdf. (Last visited May 23, 2012.)

[43] U.S. Small Business Administration Office of Advocacy, "Small Business Lending in the United States, 2009-2010," http://www.sba.gov/sites/default/files/files/sbl_10study.pdf. (Last visited May 23, 2012.)

[44] Federal Financial Institutions Examination Council, "Reports: Findings from Analysis of Nationwide Summary Statistics for 2010 Community Reinvestment Act Data Fact Sheet (August 2011)," http://www.ffiec.gov/hmcrpr/cra_fs11.htm. (Last visited May 9, 2012.)

[45] Federal Financial Institutions Examination Council, "Small Loans to Businesses and Farms, 2002-2010," http://www.ffiec.gov/hmcrpr/cra11tables1-5.pdf#Table4.1. (Last visited May 9, 2012.)

[46] Federal Financial Institutions Examination Council, "Small Loans to Businesses and Farms, 2002-2010."

[47] Equifax, "Equifax Study Shows Improvement and Weakness in Small Business Bankruptcy Trends," http://smallbiztrends.com/2011/03/equifax-study-shows-improvement-and-weakness-in-small-business-bankruptcy-trends.html. (Last visited May 23, 2012.)

[48] U.S. Small Business Administration, Office of Advocacy, "Small Business Profile: Texas."

[49] U.S. Small Business Administration, Office of Advocacy, "Equipment Leasing: Weighing the Pros and Cons," http://www.sba.gov/community/blogs/community-blogs/small-business-cents/equipment-leasing-weighing-pros-and-cons. (Last visited July 31, 2012.)

[50] Investopedia, "How to Use Crowdfunding to Start Your Business," January 31, 2012, http://www.investopedia.com/financial-edge/0112/How-To-Use-Crowdfunding-To-Start-Your-Business.aspx?partner=cli02#axzz22PBQLzBI. (Last visited July 31, 2012.)

[51] U.S. Governmental Accountability Office, "Dodd-Frank Act: Hybrid Capital Instruments and Small Institution Access to Capital," p. 2, http://www.gao.gov/assets/590/587759.pdf. (Last visited July 31, 2012.)

[52] U.S. Small Business Administration, Office of Advocacy, "Frequently Asked Questions about Small Business Finance."

[53] Small Business Administration, "The Increasing Importance of Credit Unions in Small Business Lending," by James A. Wilcox, September 2011, http://www.sba.gov/sites/default/files/files/rs387.pdf. (Last visited July 30, 2012.)

[54] E-mail communication from Alexandra Gamble, Texas Department of Rural Affairs, December 19, 2011.

[55] Texas Department of Agriculture, "Texas Community Development Block Grant Program: 2011 Action Plan," http://www.texasagriculture.gov/Portals/0/Publications/RED/CDBG/cdbgActionPlan2011.pdf. (Last visited July 30, 2012.)

[56] Texas Department of Agriculture, "Texas Capital Fund," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/TexasCapitalFund.aspx. (Last visited July 30, 2012.)

[57] Texas Department of Agriculture, "Planning and Capacity Building Fund Application and Guide," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/RuralCommunityDevelopmentBlockGrantCDBG/CDBGResources/Applications/PCBApplicationandGuide.aspx. (Last visited May 23, 2012.)

[58] Texas Secretary of State, "Colonias FAQs," http://www.sos.state.tx.us/border/colonias/faqs.shtml. (Last visited May 23, 2012.)

[59] Texas Department of Agriculture, "Colonia Funds," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/RuralCommunityDevelopmentBlockGrantCDBG/ColoniaFunds.aspx. (Last visited July 31, 2012.)

[60] Texas Department of Agriculture, "Colonia Economically Distressed Areas Program Fund Application and Guide," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/RuralCommunityDevelopmentBlockGrantCDBG/CDBGResources/Applications/CEDAPApplicationandGuide.aspx. (Last visited May 23, 2012.)

[61] Texas Department of Agriculture, "Colonia Self-Help Centers Legislative Set-Aside Fund," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/RuralCommunityDevelopmentBlockGrantCDBG/CDBGResources/Applications/CSHFund.aspx. (Last visited May 24, 2012.)

[62] Texas Department of Agriculture, "Colonia Planning and Construction Fund," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/RuralCommunityDevelopmentBlockGrantCDBG/ColoniaFunds/ColoniaPlanningandConstructionFund.aspx. (Last visited May 23, 2012.)

[63] Texas Department of Agriculture, "Disaster Relief Fund Application and Guide," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/RuralCommunityDevelopmentBlockGrantCDBG/CDBGResources/Applications/DisasterReliefFundApplicationandGuide.aspx. (Last visited July 31, 2012.)

[64] Texas Department of Agriculture, "Urgent Need Fund," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/RuralCommunityDevelopmentBlockGrantCDBG/UrgentNeedFund.aspx. (Last visited May 23, 2012.)

[65] Texas Department of Agriculture, "Small Towns Environment Program Application and Guide," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/RuralCommunityDevelopmentBlockGrantCDBG/CDBGResources/Applications/STEPApplicationandGuide.aspx. (Last visited May 23, 2012.)

[66] Texas Department of Agriculture, "State Office of Rural Health," http://www.texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/StateOfficeofRuralHealth.aspx. (Last visited May 23, 2012.)

[67] Jan Bucholz, "Bastrop to Discuss $20 Million in Rebuilding Funds," *Austin Business Journal* (May 17, 2012), http://www.bizjournals.com/austin/news/2012/05/17/bastrop-to-discuss-20m-in-rebuilding.html. (Last visited May 24, 2012.)

[68] Philadelphia Federal Reserve, "Compliance Outlook: First Quarter 2012," by Maureen Yap, http://www.philadelphiafed.org/bank-resources/publications/consumer-compliance-outlook/2012/first-quarter/fair-lending-webinar.cfm (Last visited July 31, 2012.)

[69] Corporation for Enterprise Development, "The Most Unbanked Placed in America," by Ethan Geiling, December 14, 2011, http://cfed.org/blog/inclusiveeconomy/the_most_unbanked_places_in_america/.(Last visited June 6, 2012.)

[70] Texas Office of the Governor, "Economic Development: Loan Assistance," http://governor.state.tx.us/ecodev/financial_resources/loan_assistance/. (Last visited July 27, 2012.)

[71] Vernon's Texas Civil Statutes, "Texas Development Corporation Act of 1979," http://law.onecle.com/texas/vernons/5190.6.00.html. (Last visited July 27, 2012.)

[72] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report (Austin, Texas, 2011)*, p. 4, http://www.tdhca.state.tx.us/housing-center/docs/11-SLIHP.pdf. (Last visited July 31, 2012.)

[73] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 125.

[74] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 127.

[75] National Association of Homebuilders, *The Local Impact of Home Building in a Typical Metro Area: Income, Jobs, and Taxes Generated* (Washington, D.C., June 2009), p. 2, http://www.nahb.org/fileUpload_details.aspx?contentTypeID=3&contentID=35601&subContentID=219188. (Last visited July 20, 2012.)

[76] Calculations based on NAHB formula; see National Association of Homebuilders, *The Local Impact of Home Building in a Typical Metro Area: Income, Jobs, and Taxes Generated,* pp 2-3.

[77] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 153,

[78] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 259.

[79] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 128.

[80] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, pp. 126 and 141.

[81] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 128.

[82] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 249.

[83] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 127.

[84] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 268.

[85] E-mail communication from Ashley Schweickart, November 30, 2010.

[86] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 203.

[87] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 214.

[88] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 251.

[89] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 245.

[90] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 127.

[91] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 223.

[92] E-mail communication from Ashley Schweickart, November 30, 2010.

[93] Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 128.

94 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 285.)

95 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 127.

96 Mortgage Bankers Association, "National Delinquency Survey (Q4, 2011),"p. 2, February 2012.

97 E-mail communication from Ashley Schweickart, Texas Department of Housing and Community Affairs, August 24, 2012.

98 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 276.

99 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 273.

100 E-mail communication from Ashley Schweickart, August 23, 2012.

101 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 296.

102 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 298.

103 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 302.

104 E-mail communication from Ashley Schweickart, November 29, 2010.

105 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 9.

106 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 215.

107 Texas Windstorm Insurance Association, "House Bill 3," http://www.twia.org/LinkClick.aspx?fileticket=s%2f0VDC14E0Q%3d&tabid=171. (Last visited October 13, 2012.)

108 "Texas Windstorm Reform Bill Passes; Sent to Governor," *Insurance Journal* (June 29, 2011), http://www.insurancejournal.com/news/southcentral/2011/06/29/204404.htm?print. (Last visited May 24, 2012.)

109 Texas Council on Economic Education, "Texas Legislature Supports Personal Financial Literacy," http://smartertexas.org/?p=368. (Last visited May 24, 2012.)

110 E-mail communication from Wendy Rodriguez, Texas Department of Banking, February 2, 2012.

111 Texas Department of Banking, "How Bankers Provide Financial Education in Texas, A Collaborative Study of Banks," http://www.dob.texas.gov/dss/jntsurvey2010.pdf. (Last visited June 6, 2012.)

112 John Tozzi, "Cash from the Boss to Replace Payday Loans," *BusinessWeek* (October 20, 2011), http://www.businessweek.com/magazine/cash-from-the-boss-to-replace-payday-loans-10202011.html. (Last visited July 31, 2012.)

113 Thanh Tan, "Texas Payday Lenders Face New Rules, Scrutiny," *The Texas Tribune* (January 5, 2012), http://www.texastribune.org/texas-legislature/82nd-legislative-session/first-time-tx-plans-regulate-payday-lenders/. (Last visited September 28, 2012.)

114 National Conference of State Legislatures, "Payday Lending Statutes," http://www.ncsl.org/issues-research/banking/payday-lending-state-statutes.aspx. (Last visited August 28, 2012.)

115 Pew Charitable Trust, "Payday Lending in America: Who Borrows, Where They Borrow and Why," http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Payday_Lending_Exec_Summary.pdf. (Last visited August 28, 2012.)

116 Texas Legislature Online, http://www.capitol.state.tx.us/Search/DocViewer.aspx?K2DocKey=odbc%3a%2f%2fTLO%2fTLO.dbo.vwCurrBillDocs%2f82%2fR%2fH%2fB%2f00410%2f1%2fB%40TloCurrBillDocs&QueryText=HB+410&HighlightType=1. (Last visited September 28, 2012.)

117 Federal Reserve Bank, "The Subprime Crisis: Is Government Housing Policy to Blame?" Washington, D.C., August 3, 2011, http://www.federalreserve.gov/pubs/feds/2011/201136/index.html. (Last visited August 28, 2012.)

118 Traiger & Hinckley LLP, *The Community Reinvestment Act: A Welcome Anomaly in the Foreclosure Crisis* (New York, New York, January 7, 2008), p. 1, http://traigerlaw.com/publications/traiger_hinckley_llp_cra_foreclosure_study_1-7-08.pdf. (Last visited August 28, 2012.)

119 Texas Department of Banking, "How Bankers Provide Financial Education in Texas," http://www.dob.texas.gov/dss/jntsurvey2011.pdf. (Last visited September 28, 2012.)

120 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 283.

121 U.S. Department of Energy, "Weatherized Homes Saving Money for Families Across the U.S.," by April Saylor, January 6, 2012, http://energy.gov/articles/weatherized-homes-saving-money-families-across-us. (Last visited July 31, 2012.)

122 Texas Department of Housing and Community Affairs, "Energy Secretary applauds Texas' Weatherization Assistance Program," August 25, 2010, http://www.tdhca.state.tx.us/ppa/press/20100825-DOEapplaudsTexasWAP.htm. (Last visited May 24, 2012.)

123 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 284.

124 Texas Department of Housing and Community Affairs, "Amendment to Supplement the 2010-2011 Housing Trust Fund Plan," p. 2, http://www.tdhca.state.tx.us/htf/docs/2010-2011-HTFAmendment.pdf. (Last visited August 3, 2012.)

125 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, p. 195.

126 E-mail from Ashley Schweickart, Texas Department of Housing and Community Affairs, September 5, 2012.

127 Realtytrac.com, "2011 Year-End Foreclosure Report: Foreclosures on the Retreat," January 9, 2012, http://www.realtytrac.com/content/foreclosure-market-report/2011-year-end-foreclosure-market-report-6984. (Last visited July 25, 2012.)

128 Urban Land Institute, *NeighborWorks America National Foreclosure Mitigation Counseling Program Evaluation: Preliminary Analysis of Program Effects — September 2010 Update,* by Neil Mayer, Peter A. Tatian, Kenneth Temkin and Charles A. Calhoun (Washington, D.C., December 2010), p. 65, http://www.nw.org/network/nfmcp/documents/2010.12.14FINALModelingReport.pdf. (Last visited July 30, 2012.)

129 Texas Department of Housing and Community Affairs, *2011 State of Texas Low-Income Housing Plan and Annual Report*, pp. 273-275, http://www.tdhca.state.tx.us/housing-center/docs/11-SLIHP.pdf. (Last visited August 4, 2012.)

130 Texas Department of Housing and Community Affairs, "Board Meeting of December 17, 2010," p. 6, http://www.tdhca.state.tx.us/pdf/agendas/101217-book-101210.pdf. (Last visited August 10, 2012.)

131 U.S. Department of Housing and Urban Development, "Homeless Emergency and Rapid Transition to Housing (HEARTH) Act," http://www.hudhre.info/hearth/. (Last visited August 28, 2012.)

132 U.S. Department of Housing and Urban Development, "Substantial Amendment to the Consolidated Plan 2008 Action Plan for the Homelessness Prevention and Rapid Re-Housing Program (HPRPhttp://www.nh.gov/recovery/resources/documents/dhhs_sub_amend_041609.pdf. (Last visited August 15, 2012.).

[133] Federal Financial Institutions Examination Council, "FFIEC Interagency CRA Rating Search," http://www.ffiec.gov/craratings/default.aspx. (Last visited October 5, 2012.)

[134] Board of Governors of the Federal Reserve System, "Evaluation of CRA Performance," http://www.federalreserve.gov/communitydev/cra_dev.htm. (Last visited October 5, 2012.)

[135] Federal Reserve Board, "Agencies Release Annual CRA Asset-Size Threshold Adjustments for Small and Intermediate Small Institutions," http://www.federalreserve.gov/newsevents/press/bcreg/20111219a.htm. (Last visited October 5, 2012.)

[136] Office of the Comptroller of the Currency, "Agencies Release Annual CRA Asset-Size Threshold Adjustments for Small and Intermediate Small Institutions," http://www.occ.gov/news-issuances/news-releases/2011/nr-ia-2011-152.html. (Last visited October. 6, 2012.)

[137] Conference of State Bank Supervisors, "Dodd-Frank and the Future Role of State Supervision, p. 5, "http://www.csbs.org/news/csbswhitepapers/Documents/Dodd-Frank-FutureRoleof%20tateSupervision.pdf. (Last visited September 28, 2012.)

[138] Conference of State Bank Supervisors, "Dodd-Frank and the Future Role of State Supervision, p. 7, "http://www.csbs.org/news/csbswhitepapers/Documents/Dodd-Frank-FutureRoleof%20tateSupervision.pdf. (Last visited September 28, 2012.)

[139] Conference of State Bank Supervisors, "Dodd-Frank and the Future Role of State Supervision, p. 7, "http://www.csbs.org/news/csbswhitepapers/Documents/Dodd-Frank-FutureRoleof%20tateSupervision.pdf. (Last visited September 28, 2012.)

[140] Federal Financial Institutions Examination Council, "History of HMDA," http://www.ffiec.gov/hmda/history2.htm. (Last visited August 21, 2012.)

[141] Federal Financial Institutions Examination Council, http://www.ffiec.gov/hmda/pdf/12news.pdf,

[142] Federal Financial Institutions Examination Council, http://www.ffiec.gov/hmda/pdf/HMDA_2009Disc_Changes.pdf. (Last visited October 15, 2012.)

[143] "Federal Financial Institutions Examination Council, "2011 HMDA Panel Changes Resulting from the Dodd-Frank Act," http://www.ffiec.gov/hmda/pdf/12news.pdf. (Last visited August 21, 2012.)

[144] U.S. Government Printing Office, Federal Register, Vol. 7, No. 245, Part VI, Bureau of Consumer Financial Protection, 12 CFR, Part 1002, Equal Credit Opportunity (Regulation B) Interim Rule, http://www.gpo.gov/fdsys/pkg/FR-2011-12-21/pdf/2011-31714.pdf. (Last visited October 26, 2012.)

[145] Federal Reserve Board, "Electronic Code of Federal Regulations-Title 12, Banks and Banking, Chapter II, Subchapter A, Part 202, Equal Opportunity Credit Act (Regulation B), http://www.federalreserve.gov/bankinforeg/reglisting.htm. (Last visited October 5, 2012.)

[146] Federal Reserve Board, "Consumer Compliance Outlook, First Quarter 2012, Fair Lending Questions and Answers," http://www.philadelphiafed.org/bank-resources/publications/consumer-compliance-outlook/2012/first-quarter/fair-lending-webinar.cfm. (Last visited October 22, 2012.)

[147] Federal Reserve Board, "Electronic Code of Federal Regulations-Title 12, Banks and Banking, Chapter II, Subchapter A, Part 202, Equal Opportunity Credit Act (Regulation B), http://www.federalreserve.gov/bankinforeg/reglisting.htm (Last visited October 7, 2012.)

[148] U.S. Government Printing Office, Dodd-Frank Act, http://www.sec.gov/about/laws/wallstreetreform-cpa.pdf. (Last visited October 25, 2012.)

[149] Mortgage Bankers Association, "Summary of Mortgage Related Provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act," http://www.mbaa.org/files/ResourceCenter/MIRA/MBASummaryofDoddFrank.pdf. (Last visited October 15, 2012.)